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2008



Report of the
**Auditor General
of Canada**
to the House of Commons

DECEMBER

Matters of Special Importance
Main Points—Chapters 1 to 8
Appendices



Office of the Auditor General of Canada



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Office of the Auditor General of Canada

The December 2008 Report of the Auditor General of Canada comprises Matters of Special Importance—2008, Main Points—Chapters 1 to 8, Appendices, and eight chapters. The main table of contents for the Report is found at the end of this publication.

The Report is available on our website at www.oag-bvg.gc.ca.

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Auditor General of Canada
Vérificatrice générale du Canada

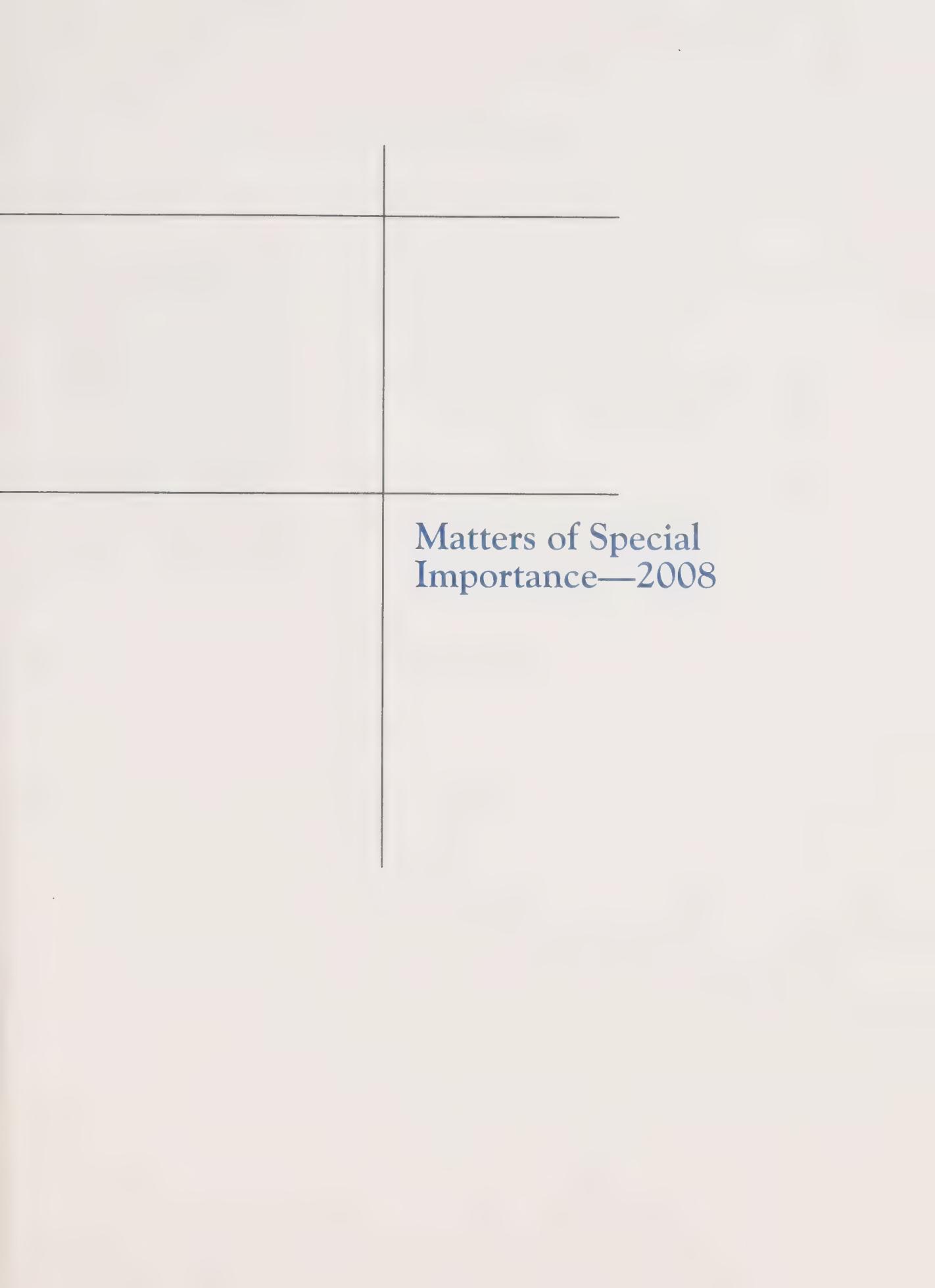
To the Honourable Speaker of the House of Commons:

I have the honour to transmit herewith this annual Report of 2008 to the House of Commons, which is to be laid before the House in accordance with the provisions of subsection 7(3) of the *Auditor General Act*.

A handwritten signature in black ink that reads "Sheila Fraser".

Sheila Fraser, FCA
Auditor General of Canada

OTTAWA, 9 December 2008



Matters of Special
Importance—2008

Matters of Special Importance—2008

My Eighth Annual Report



Photo: Canadian Press/CP24

Sheila Fraser, FCA
Auditor General of Canada

I am pleased to present my fall 2008 Report to the House of Commons. The Commissioner of the Environment and Sustainable Development is also presenting a report today.

It is an exciting time for our environment and sustainable development audit practice, for a number of reasons. We have a new Commissioner, Scott Vaughan, who brings with him an impressive background in sustainable development. In addition, the *Federal Sustainable Development Act* received Royal Assent in June.

The Act requires that a federal sustainable development strategy be developed and implemented. We have pointed out the need for such an overarching federal strategy and are pleased with this development.

This new Act also expands the Commissioner's mandate: He will not only examine whether individual departmental strategies comply with and contribute to the federal strategy, he will also report to Parliament on the fairness of the information in the federal government's progress report on the implementation of its federal strategy.

This Report reflects the diversity and the complexity of the government

The federal government includes hundreds of organizations, from large departments and Crown corporations to small agencies, boards, and commissions. With total spending of approximately \$230 billion in areas ranging from border security to passports, food inspection, statistics, peacekeeping, fisheries, international trade, immigration, and debt management, activities of the federal government touch virtually all aspects of the daily lives of Canadians. In all of these areas, the government also has to take into account the changing needs of society, conflicting priorities, and responsibilities that overlap with those of provincial and municipal governments. The sheer magnitude of operations is impressive—the Canada Revenue Agency (CRA) processes 3 million computer transactions per hour, for example, and Public Works and Government Services Canada (PWGSC) spends more than \$1 billion a year on contracts for professional services.

Our reports to Parliament reflect the diversity of the issues on the federal government's agenda and the sometimes enormous challenges that come with them. Earlier this year, we reported on National Defence's support for overseas deployments, the surveillance of infectious diseases, the detention and removal of individuals by the Canada Border Services Agency, and the management of the First Nations Child and Family Services Program by Indian and Northern Affairs Canada. Today's Report contains a study on federal transfer payments to the provinces and territories, and a chapter on the government's oversight of federal small entities—those with fewer than 500 employees, like the Canadian Radio-television and Telecommunications Commission and the Canadian Human Rights Tribunal. The Report also covers the management of environmental and economic risks to Canada's agriculture and forestry sector, and the economy and efficiency with which food, clothing, and security are provided in federal correctional institutions.

It is to be expected that an organization as large and complex as the federal government does some things very well and has difficulties in other areas. Again this year, our reports showed a range of accomplishments.

Public Works and Government Services Canada followed a fair, open, and transparent process in awarding more than a billion dollars in contracts for the professional services of consultants such as accountants, lawyers, architects, and specialists in data processing (Chapter 3). I am pleased to report that it complied with the applicable acts, regulations, and policies in awarding 95 percent of the publicly tendered contracts and 96 percent of the sole-sourced contracts that we audited. However, we did find a need for improvement in the administration of some contracts after they had been awarded.

The Canada Revenue Agency has done a lot of work in the last two years to improve the way it manages its information technology (IT) systems (Chapter 5). These systems are critical to its ability to administer taxes and benefits and to ensure that tax laws are followed. The Agency operates some of the largest IT systems in the government and spends about \$500 million a year on its applications and infrastructure. We found that in many areas, it is managing its investments well. However, it needs to finish implementing the initiatives it has under way to improve IT project management. It also needs to do more to strengthen its practices in managing its IT investments. We found problems in six of the eight IT projects we examined in detail, including flawed business cases, significant delays, and, in one case, an end product that did not do the job.

The Agency is also making progress in fulfilling several of its new “employer” and staffing responsibilities (Chapter 6) formerly under the Treasury Board and the Public Service Commission. The Agency depends heavily on having a qualified workforce—tax assessors, auditors, IT specialists—in order to administer tax laws. It was granted new human resource authorities in 1999 to give it more autonomy in human resource management in order to better meet its business needs. We found that the Agency has used its new human resources authorities in areas such as job classification, employee compensation, and labour relations. Staffing, however, remains a challenge. Our audit found that staffing processes are confusing and frustrating for employees, and progress in achieving the expected efficiencies has been slow.

The Canadian Food Inspection Agency regulates imports of plants and plant products such as seeds, grain, and field crops, and forest and horticultural commodities (Chapter 4). The thousands of shipments of regulated plants and plant products imported into Canada every year could contain invasive plants, pests, and diseases that can have a serious and often irreversible impact on our ecosystems. Preventing invasive species from entering the country and detecting new species before they become established in Canada are critical to protecting the food supply as well as the agricultural and forestry sectors of the economy and the environment. We examined whether the Agency adequately manages the risks associated with invasive alien plants, pests, and diseases. We found extensive problems in the Agency’s activities that compromise its ability to manage risks to Canada’s plant resources.

Correctional Service Canada (CSC) provides custody and care to more than 14,000 male and female inmates in 58 federal institutions across the country. We examined whether CSC has paid sufficient attention to economy and efficiency (Chapter 7) in providing its security services, and whether it has been economical in purchasing food, clothing, and cleaning products for its institutions. We found that CSC does not analyze the total volume of food and cleaning products that it needs to buy; most purchasing decisions are made by each institution rather than at the national level. This means that CSC misses out on potential savings from buying in larger volumes. In the provision of security, overtime costs have continued to increase in recent years even though the numbers of inmates and violent incidents have remained relatively stable. We found no analysis by CSC to determine whether overtime was more economical than hiring additional staff.

Part of our ongoing work is to look at small federal entities. For this report, we looked at the regime for central oversight of small entities (Chapter 2). Our conclusion—that selected elements

of central agency oversight and coordination are not working well—is in line with a recent report by the Public Accounts Committee.

We found that central agencies of government—the Treasury Board of Canada Secretariat, the Canada Public Service Agency, and the Privy Council Office—have not substantively addressed two major and long-standing problems—the reporting burden on small federal organizations and the sharing of administrative services among some of these agencies.

In 2000, the Government of Canada and provincial and territorial governments reached an historic agreement on health that set out a vision, principles, and an action plan for health system renewal. The governments reached two subsequent agreements in 2003 and 2004. The agreements were accompanied by significant increases in federal transfers to the provinces and territories, first ministers jointly recognized the need to be accountable to Canadians through regular public reporting on health system performance and on the results of health system renewal. Federal, provincial, and territorial health ministers agreed to develop and report on indicators that could be compared across jurisdictions and over time in order to measure progress on renewal. In our audit of health indicators (Chapter 8), we were disappointed to find that while Health Canada has met the specific health indicator reporting commitments of the agreements, it has not provided the kind of reporting that First Ministers said Canadians were entitled to receive. Good public reporting should provide information to help Canadians understand and interpret the health indicators. Health Canada's indicator reports did not provide readers with this information, limiting their usefulness to Canadians.

Accountability provisions of transfer payment to the provinces and territories vary considerably

Federal transfers to the provinces and territories make up a significant portion of the federal government's annual spending. They represent a major source of funds for services provided to Canadians in areas such as health, post-secondary education, and social assistance. In the 2006–07 fiscal year, federal transfers amounted to approximately \$50 billion, or just under 23 percent of federal spending.

This report contains a study on the three main types of transfer payments made by the federal government to provinces and territories (Chapter 1). We undertook this study to answer questions that parliamentarians have raised about federal transfers and our Office's mandate to audit them.

The nature and extent of conditions attached to transfer payments vary considerably and have changed over the years. Some transfers have specific conditions that require reporting to the federal government on how the money was spent and to what effect, while others do not.

One type of transfer, carried out through trusts, was introduced by the federal government in 1999. Transfers of this type are earmarked in public announcements by the federal government for specific purposes (for example, police officer recruitment or affordable housing), but there are no conditions that legally obligate provinces and territories to spend the funds for the announced purposes or to report subsequently to the federal government. Federal officials told us that in recent trusts, the federal government has required that provinces and territories publicly announce how they intend to use the funds, on the assumption that their legislative assemblies and citizens will hold them to account for these commitments.

The absence of reporting requirements for trusts could become a dilemma in cases such as the \$1.5-billion Clean Air and Climate Change Trust Fund (discussed in the Commissioner's Report, Chapter 1), where the government includes results expected from the provinces in reporting its own expected results. In reporting under the *Kyoto Protocol Implementation Act*, the federal government said it expected that as a result of the Trust Fund, the provinces and territories would reduce greenhouse gas emissions by 80 megatonnes between 2008 and 2012. Environment Canada has made a claim of expected results even though the nature of this Trust Fund makes it very unlikely that it will be able to report real, measurable, and verifiable results.

We will be reporting in collaboration with the Privacy Commissioner of Canada on how the government manages identity information

The government's ability to deliver some of its largest and most significant programs to Canadians relies on information that allows federal institutions to identify the individuals applying for their services.

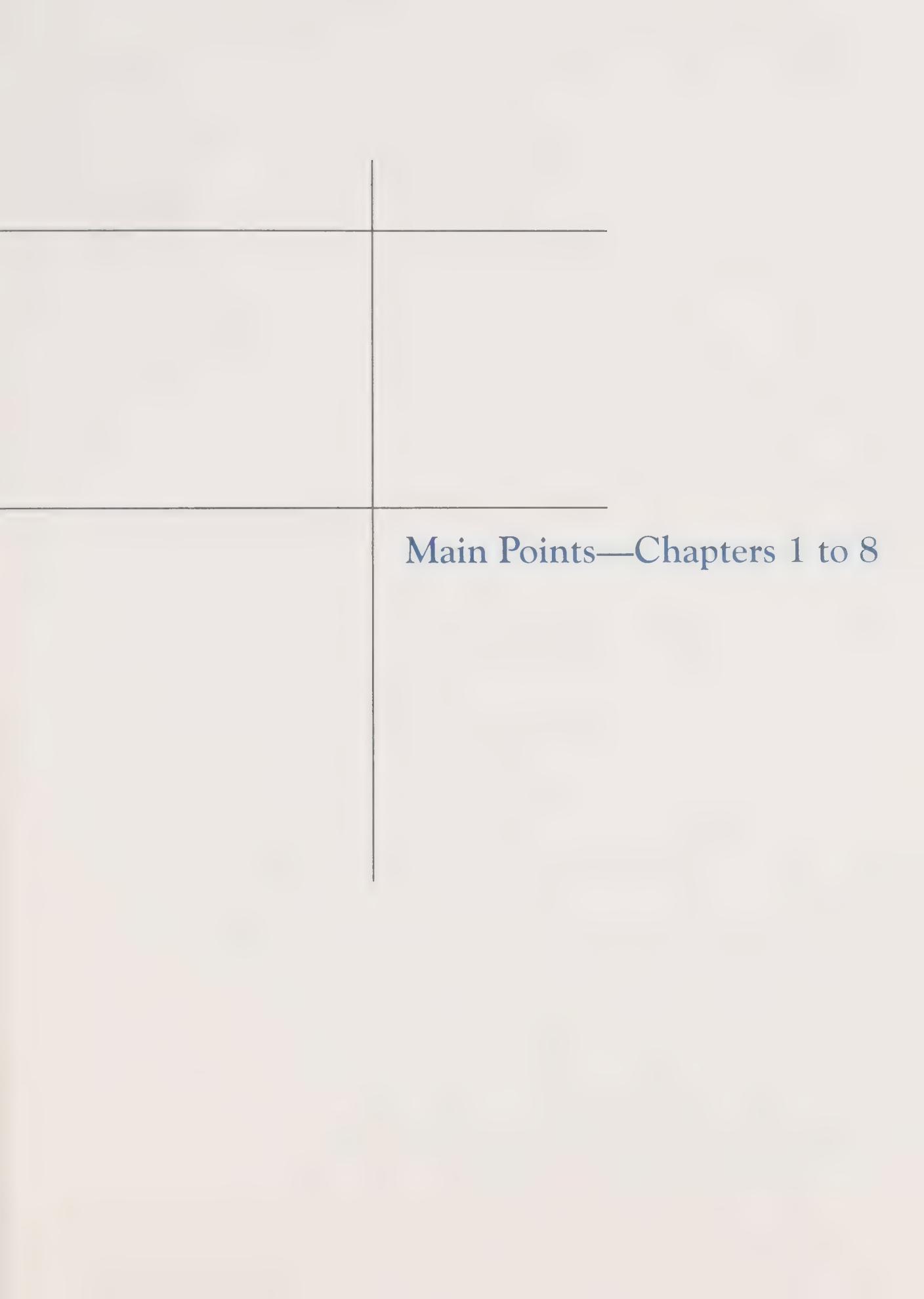
Our Office and the Office of the Privacy Commissioner of Canada carried out concurrent audits of four federal organizations with large databases of identity information. In our audit, we wanted to determine whether the organizations collect only identity information that is relevant to their program needs and use adequate practices to ensure the quality of the information. We also looked at the extent to

which the government has worked to address common problems while respecting privacy and other legal requirements.

Our report and the Privacy Commissioner's report will be tabled in Parliament in the coming weeks.

Conclusion

In closing, I would like to thank my staff for their dedication and professionalism. The range of subjects covered in our performance audit practice and our other audit work provides us with an appreciation of the diverse and complex issues that the government manages on behalf of Canadians. I hope members of Parliament will find this report useful in holding the government to account for its management of public funds.



Main Points—Chapters 1 to 8



A Study of Federal Transfers to Provinces and Territories

Chapter 1

Main Points

What we examined

The federal government uses a number of mechanisms to transfer funds to the provinces and territories for general areas of spending such as health or for specific purposes such as improving infrastructure. In 2006–07, these federal transfers amounted to approximately \$50 billion, or just under 23 percent of federal spending.

Our study examined the three main mechanisms used by the federal government to transfer funds to the provinces and territories. We also looked at the nature and extent of conditions attached to these transfers.

We undertook this study to inform parliamentarians about the federal government's transfers to the provinces and territories. Because this is a study and not an audit, it is descriptive, and does not include recommendations.

As auditors, we recognize that decisions on whether, and to what extent, conditions attached to transfers are policy decisions, often involving sensitive federal-provincial/territorial negotiations. We do not question these decisions.

We did not examine funding arrangements with First Nations, payments to foundations or municipal governments, or transfer payments to individual Canadians.

Why it's important

Federal transfers to the provinces and territories make up a significant portion of the federal government's annual spending. They are a major source of funds for services provided to Canadians in areas such as health, post-secondary education, and housing.

The nature and extent of conditions attached to federal transfers to the provinces and territories varies significantly. While some transfers have specific conditions that recipients must meet, others are unconditional and there is no requirement for a province or territory to report to the federal government on the use of the transferred funds. It is not always clear to parliamentarians which transfers have conditions attached and what the nature and extent of those conditions are.

What we found

- The federal government uses three main mechanisms to transfer funds to the provinces and territories. The first and largest includes four major transfers that recur annually by law and are managed by Finance Canada: the Canada Health Transfer, the Canada Social Transfer, Equalization Program transfers, and Territorial Formula Financing (just over \$42 billion transferred in the 2006–07 fiscal year). The second mechanism involves the transfer of funds by individual federal departments to support specific program areas (just over \$5 billion in 2006–07). Finally, the federal government also transfers funds to the provinces and territories using trusts (just over \$3 billion in 2006–07).
- According to the federal government, the extent of federal accountability for how the provinces and territories spend transferred funds depends on the nature and extent of conditions attached to the transfers. In all cases, the federal government is accountable to Parliament for its decision to use transfers with or without conditions as the best policy choice available in the circumstances.
- Some transfers involve conditions that, for example, obligate recipients to provide the federal government with information on how they spent the transferred funds and to what effect. The federal government must demonstrate that it is monitoring provincial and territorial compliance with these conditions and that it is taking action in cases of non-compliance. Where transfers have limited or no conditions, the provinces and territories have the flexibility to spend the funds according to their own priorities, with no legal obligation to account to the federal government for the spending.
- A significant addition to the transfer mechanisms used by the federal government was its introduction of trusts in 1999. Since then, 23 trusts have been established to transfer almost \$27 billion to the provinces and territories. In each case, the federal government has stated the intended purposes of the trusts in public announcements. Once the eligibility conditions for these trusts have been met, no additional legal conditions obligate provinces and territories to spend the funds for the purposes announced.
- Once the provinces and territories have established their eligibility to draw funds from the trust, they become accountable in principle to their own citizens, not to the federal government, for how they use the funds. In this sense, these trusts are similar to the four major transfers.
- Where transfers have conditions, how well the federal government monitors the conditions is subject to performance audits by our Office and our audit reports are provided to Parliament. For all transfers audited, we ensure that the amount paid is properly recorded in accordance with Public Sector Accounting Board standards.



Governance of Small Federal Entities

Chapter 2

Main Points

What we examined

The federal government includes a variety of organizations, from large departments and Crown corporations to small agencies, boards, and commissions that carry out a wide range of activities, from environmental assessment to transportation safety. While the government defines small entities in a number of ways, for this audit, we considered small entities to be federal organizations with fewer than 500 employees or annual approved expenditures of less than \$300 million.

We examined specific elements of the federal government's regime of governance for small entities—the arrangements by which central agencies of government oversee the management of these entities. We carried out audit work in three central agencies (the Privy Council Office, the Treasury Board of Canada Secretariat (TBS), and the Canada Public Service Agency); in three federal departments with a large number of small entities in their portfolios; and in six small entities including a range of types: quasi-judicial, regulatory, granting, and policy bodies. We did not examine the internal management or program delivery of individual small entities.

This was one in a series of audits of small entities reported by this Office; others have looked at management and control practices and at program delivery. A chapter in our 2009 Status Report will cover Governor in Council appointments to these organizations.

Why it's important

Despite their relatively small size, these organizations can have a significant impact on the health, safety, and quality of life of Canadians. As publicly funded bodies within the government, small entities need to ensure prudence, probity, and effective control over the spending of public funds. Some characteristics of small entities—notably appointment processes, independence, and limited capacity—make it more challenging for them than for much larger federal organizations to respond to the management, control, and reporting requirements of the government's central agencies. Good governance requires effective oversight of the organizations that the federal government controls.

What we found

- In the small entities we examined, some key elements of the governance regime are not working well. For example, there is a lack of practical guidance to departments and agencies on specifically how and in what circumstances portfolio coordination should be practised (a portfolio is a grouping of government entities under the responsibility of a minister). From the perspective of the small entities we audited, this has resulted in an ad hoc approach that depends largely on individuals—communication and interaction with the portfolio department has been inadequate. In addition, the TBS Management Accountability Framework (MAF) is intended as a tool for monitoring management effectiveness in departments and agencies, but better information is needed for TBS to adequately assess financial management and control in small entities. The recent creation of a central internal audit function for small entities is a positive step, potentially allowing for better monitoring by TBS.
- Central agency and statutory reporting requirements place a significant burden on the limited capacity of small entities. The small entities we audited noted the high number of reports required (over 100 each year), their complexity and labour-intensive nature, and doubts about the value added by many of the reports. Five years after the central agencies acknowledge their role with respect to the reporting burden, the actions they have taken have not substantively reduced it. At the time of our audit, the central agencies had initiated action plans and had just created a committee to address the reporting burden across government.
- Given their smaller size, many small entities lack the capacity to build, sustain, and improve internal services such as finance, human resources management, and information technology. Sharing services is a way to address these challenges. Since 2001, various TBS studies have recognized the problems faced by small entities, and the government committed itself to improvement through shared services. Yet little has been done. The Secretariat's proposed initiative for corporate administrative shared services (CASS) in government does not take into account the capacity of small entities and the business risks they face, nor does it include them in CASS over the next three to five years. Several small entities have taken the initiative to share services but, unless central agencies develop a governance framework, the parties could be facing serious risks. Further, the potential for learning and improvement will be limited.

The central agencies have responded. The Treasury Board of Canada Secretariat, the Privy Council Office, and the Canada Public Service Agency agree with all of our recommendations. Their detailed responses follow each recommendation throughout the chapter.



Contracting for Professional Services

Public Works and Government Services Canada

Chapter 3

Main Points

What we examined

To help deliver its departmental programs, Public Works and Government Services Canada (PWGSC) uses the professional services of consultants such as accountants, lawyers, architects, engineers, specialists in data processing, and other technical and professional experts.

We examined two random samples—one of publicly tendered contracts and one of sole source contracts—to determine whether PWGSC's contract award process followed the government's contracting regulations and policies. From the Department's expenditure database we also examined a random sample of financial transactions related to contracts to determine whether they were managed appropriately after they were awarded—that is, whether they were administered in compliance with the *Financial Administration Act*, the terms and conditions of the contracts, and the Department's financial and contracting policies. In addition, we assessed whether PWGSC had adequate management controls and monitoring practices in place.

Our conclusions relate only to the management practices and actions of public servants. The rules and regulations we refer to apply to public servants and not to contractors. We did not audit the records of the private sector contractors. Consequently, our conclusions cannot and do not pertain to any practices that contractors followed or to their performance.

Why it's important

PWGSC spends more than \$1 billion annually on contracts for services to support the delivery of its own programs. Therefore, it is essential that officials at PWGSC protect the interests of the Crown by adhering to key principles of contracting that promote competition, fairness, and transparency. This requires sound processes with appropriate segregation of duties, monitored to ensure that they are followed consistently.

What we found

- PWGSC awarded contracts in a fair, open, and transparent manner and fully complied with the applicable acts, regulations, and policies in 95 percent of the publicly tendered contracts and 96 percent of the sole source contracts that we audited.
- In the administration of contracts after they were awarded, there was an administrative deficiency or weakness of some kind in 30 of the 37 transactions examined—that is, the Department's management controls were not properly applied. Although no single type of problem was pervasive, the number of problems indicates that the controls are not enforced consistently. For example, in some cases, contracts were amended after they were awarded, significantly changing their nature and value; in some cases, the Department did not enforce terms and conditions of contracts.
- In several cases, the same departmental official who undertook the procurement for services also certified that the services were received. This is not consistent with the Treasury Board's Policy on Delegation of Authorities, which requires that each of the tasks be carried out by separate individuals.
- The Department had extensive, long-term contractual arrangements with some consultants that could create an employer-employee relationship and a risk of liability to the government.
- In three cases, there was evidence indicating that the contractor who was awarded the contract had been involved in developing the search criteria or had written the statement of work for the contract. In one case, PWGSC used the services of a consultant to assist in developing the request for proposal, while at the same time the consultant was subcontracted with the firm that bid on and was awarded the contract. Each case represented a conflict of interest and a violation of the government's policy that contracting be fair, open, and transparent.

The Department has responded. PWGSC agrees with all the recommendations and is taking action to address the concerns raised in the chapter. It says it is pleased that the audit found it had followed the rules in its contract award process and complied with the government's rules when awarding contracts for services. The Department's responses follow each recommendation throughout the chapter.



Managing Risks to Canada's Plant Resources

Canadian Food Inspection Agency

Chapter 4

Main Points

What we examined

The mandate of the Canadian Food Inspection Agency (CFIA) is to safeguard Canada's food supply, protect animals and plants, and support trade and commerce. One of its responsibilities is to regulate imports of plants and plant products. This includes developing import policies and standards, issuing import permits, approving shipments for release, and carrying out import inspections. In the 2006–07 fiscal year, CFIA spent \$65.2 million protecting Canada's crops and forests.

We examined whether the Agency adequately manages the risk that invasive alien plants, seeds, plant pests, and plant diseases could enter or become established in Canada. We looked at how the Agency sets and administers standards, conducts pest surveys and plant health risk assessments, and verifies that imports of plants and plant products meet Canadian requirements. Our audit focused on work done by CFIA staff at headquarters in Ottawa, at the three Import Service Centres (Vancouver, Toronto, and Montreal), and at inspection offices across the country.

Why it's important

Canada's plant resources are critical to the well-being of all Canadians. Invasive alien plants and plant pests can threaten biodiversity and the economy. Experts have concluded that invasive species are the second most serious threat to biodiversity after habitat loss. In their new habitat, invasive alien plants and plant pests may become new predators, competitors, parasites, or diseases and thus threaten domestic species and Canada's plant and plant product production. In 2005, this production was valued at approximately \$100 billion.

There is a general consensus that it costs less to deal with invasive plants, pests, and diseases before they become established. In protecting Canada's plant resources, CFIA must manage the risks associated with changing environmental conditions, the growing globalization of trade, and the increasing diversity of plants and plant products being imported into Canada—currently estimated at around 84,000 shipments a year.

What we found

- The Agency supports its efforts with two key science-based activities—plant health risk assessments and pest surveys. The Agency has difficulty delivering timely assessments; there is a growing backlog of requests for risk assessments—42 at the time of our audit, more than can normally be completed in a year. The yearly pest survey plans of the Plant Health Surveillance Unit are not risk-based and focus almost exclusively on existing invasive plants, pests, and diseases rather than identifying potential new threats before they become established plant health emergencies.
- CFIA's national inspection targets for plant imports are interpreted and applied inconsistently across the country. High-risk imported commodities, which are subject to 100 percent inspection, are sometimes released for distribution without being inspected. Of the 27 approved import application packages we selected where inspection had been necessary, 10 were released for distribution without being inspected; in 6 other cases there was no record of having received the transaction in the inspection office. We were told that inspection of plant imports competes with pest surveys and export certification for inspectors' time and that exports are a higher priority.
- Plant protection programs are not adequately supported by information management and technology, resulting in the need for thousands of faxes sent internally across the Agency each year and the loss of documents. Further, there is no system for tracking imports, and decisions to approve or reject import application packages are based on manual reconciliation of information from a variety of paper and computer sources. There is no systematic mechanism for inspection offices to provide the Agency's Plant Health Division with inspection results, so the Division does not know if the inspection standards it sets are followed and are targeting the right commodities and importers. We first identified the lack of supporting information management in a 1996 audit of the Federal Plant Health Program and there has been little progress since then.
- Overall, the Plant Health Program lacks quality management processes in import-related activities key to keeping invasive alien species from entering and becoming established in Canada. As a result, management has no systematic way of knowing if its procedures are adequately designed and operating effectively. This compromises the Agency's ability to ensure that only shipments representing a low risk of contravening Canada's import requirements are approved for entry into the country. Further, these and other risk-mitigation problems we identified in many key

import-related activities in the Plant Health Program cut across the Agency's three main branches—Science, Policy and Programs, and Operations.

The Agency has responded. The Agency agrees with all of our recommendations. Its detailed responses follow each recommendation throughout the Chapter.



Managing Information Technology Investments

Canada Revenue Agency

Chapter 5

What we examined

Main Points

The Canada Revenue Agency collects some \$346 billion in taxes annually on behalf of the Government of Canada, the provinces (except Quebec), the territories, and certain First Nations governments. Processing up to 3.0 million computer transactions per hour, the Agency maintains some of the largest databases in the government and spends about \$500 million annually on information technology (IT) systems, of which \$129 million is recovered from the Canada Border Services Agency. It is currently pursuing a complex set of strategies to transform its business, including increasing the interactive nature of its systems to improve both its own administration and its relations with taxpayers.

We examined whether its systems and practices provide the Agency with reasonable assurance that IT investments are well managed and consistent with its business objectives. We looked at the management framework for IT investments, including the processes for deciding which IT-enabled business projects to invest in and for monitoring progress to ensure that the investments continue to support the Agency's objectives. We examined eight projects to determine whether they had appropriate governance and accountability structures, a comprehensive business case, and adequate management of risk. We also looked at whether expected benefits from the projects were clearly defined, adequately tracked, and properly reported.

Why it's important

The Canada Revenue Agency's information technology systems are critical to its ability to administer taxes, benefits, and related programs and to ensure compliance with federal, provincial, and territorial tax laws. An organization as large and complex as the Agency needs to ensure that it invests in the right IT systems and applications and that its investments deliver the intended value. Its systems are also the main vehicle the Agency has for improving the efficiency and cost-effectiveness of its tax administration activities, and for improving client and taxpayer services.

What we found

- The Agency has made a number of changes in the past two years to significantly improve the management of its IT investments. Through self assessments and internal audits, it has identified needed enhancements. For example, it has implemented a strengthened process for approving and monitoring new project proposals, including a more rigorous project management framework. Since most large IT investments are long-term in nature, and some aspects of the Agency's policies and practices are quite recent, it is too early to evaluate how well the new policies and procedures are working.
- Most of the projects we audited did not follow the Agency's own established project management guidance. Furthermore, in six of the eight projects we examined in detail, we found serious project management problems including business cases missing key elements, significant time delays, and in one case, an end product that was not accepted by the intended user. The Agency believes that its new project management framework will address many of the shortcomings we identified, but it needs to verify this by carrying out future reviews.
- There are still some gaps in the governance of IT investments that need to be addressed. While the Agency recently implemented an improved framework for selecting and managing individual IT projects, it has not enhanced to the same degree its ability to manage its IT investments as a portfolio. Better portfolio management processes and information would help the Agency ensure that its investments are appropriately balanced between those that, for example, renew aging systems, improve compliance efforts, or improve client service. Better information would also help it to determine whether the overall risk of its IT investments is acceptable and whether the initiatives outlined in the Agency's IT investment strategy have been achieved.

The Agency has responded. The Agency agrees with all of our recommendations. Its detailed responses follow each recommendation throughout the chapter.



Use of New Human Resources Authorities

Canada Revenue Agency

Chapter 6

What we examined

Main Points

In 1998, the government identified human resources management (HRM) at the Department of National Revenue as an area requiring significant change. In creating the Canada Customs and Revenue Agency (which later became the Canada Revenue Agency), Parliament empowered the Agency to design and develop its own tailor-made framework and systems to manage human resources. In particular, as a separate agency under the *Public Service Staff Relations Act* (which became the *Public Service Labour Relations Act* in 2003), the Agency took over the “employer” responsibilities from the Treasury Board and staffing authorities from the Public Service Commission of Canada. The Agency’s direct responsibilities for human resources were extended to staffing, classification, compensation, labour relations, collective bargaining, training, and human resources policy development. The key objective was to help make the Agency’s HRM regime more efficient, effective, and responsive to its business needs.

We examined the Agency’s use of its new human resources authorities in the areas of staffing, classification, compensation, and labour relations. We also examined whether the Agency can demonstrate that its management of human resources is more efficient and that it is effective and responsive to the Agency’s business needs.

Why it’s important

The Canada Revenue Agency depends heavily on having a qualified workforce to deliver its tax administration mandate and protect Canada’s tax base. It spends close to \$2.8 billion annually for its workforce of some 43,000 employees—a significant portion of its operating costs. The Agency has said that this workforce must be supported by a responsive human resources management regime that is based on principles and values. One of the government’s goals in creating the Agency was to make it a more efficient and effective organization. It highlighted human resources management as one key area in need of significant change.

What we found

- The Agency faced significant challenges in developing and implementing initiatives to use its new human resources authorities. It is a large, decentralized organization with a long history and a unique culture. It also had no public sector models to follow for some of its initiatives. Having set an ambitious agenda, it has worked to implement that agenda.
- The Agency has used the human resources authorities and flexibility it was granted by Parliament in 1999 to create a human resources management regime that is designed to respond to its specific business needs. For example, it has defined the competencies required to do almost all of its jobs and has updated many work descriptions; it has created distinct occupational groups and implemented three of them successfully; and it has made changes to employee compensation through collective bargaining to be more competitive. Further, it has introduced initiatives to improve labour relations, and union and management representatives told us that those relations are generally harmonious and better than they were in 1999.
- The Agency has had great difficulty implementing a critical part of its new staffing process. The process calls for an objective assessment of employees' competencies when filling vacancies. Due to the size of the workforce and to poor project management in the early years, these assessments are taking a lot longer than anticipated. As a result, the process has not yet resulted in faster staffing actions, one of its main goals. An efficient staffing process is critical in light of the recruitment challenges the Agency expects to face in the coming years. In addition, employees indicated that the process is confusing and frustrating, in part due to the many changes that have been and continue to be made.
- During the development of the initiatives to implement its human resources authorities, the Agency did not determine how it would measure their success. While its recent annual reports indicate that the Agency continues to meet most of its operational objectives, it has difficulty linking that result to the use of its new human resources authorities.

The Agency has responded. The Agency substantially agrees with all of the recommendations. Its detailed responses follow the recommendations throughout the chapter.



Economy and Efficiency of Services

Correctional Service Canada

Chapter 7

What we examined

Correctional Service Canada (CSC) is responsible for criminal offenders sentenced by the courts to two years or more in prison. It provides custody and care to 14,500 inmates in 58 federal institutions and 16 community correctional centres. It also supervises offenders after release, through 71 parole offices.

We examined whether CSC management ensures that goods and services for its institutions are procured, managed, and delivered with sufficient attention to economy and efficiency. Specifically, we focused on whether food, clothing, and cleaning products of the desired quality are obtained at the lowest available cost and whether related services are delivered efficiently. We also looked at security services, in particular at whether CSC is efficient in the deployment of correctional officers among institutions, including the use of overtime.

Why it's important

Correctional Service Canada has an obligation to ensure the safety and security of the Canadian public as well as its inmates and staff by preventing inmate escapes as well as violent incidents in its institutions. In addition, it has significant financial responsibilities. It spends about one third of its budget—about \$642 million—on security and food, clothing, and cleaning services. Savings that are achieved through better management of costs can be reinvested in areas that Correctional Service has identified as priorities. At the same time, in its 2007–08 *Report on Plans and Priorities*, CSC said it had exhausted its ability to reallocate existing resources in order to meet its challenges.

What we found

- Correctional Service Canada does not manage its purchasing of food, clothing, and cleaning products in a way to obtain best value at the lowest available cost. Its purchasing processes are behind those of other industries that purchase similar goods in similar volumes. Quantities of food and cleaning products needed for the 58 institutions are not analyzed at the national level; instead, institutions determine the quantities of food and cleaning products they need and carry out much of their own purchasing. This means the Agency is missing opportunities for savings available through higher-volume purchasing. In addition, CSC has not analyzed either

the overall cost of preparing food inside the institutions or whether there are more economical alternatives. While it manages most clothing purchases at the national level, a substantial percentage of purchases are still made locally by institutions.

- Correctional Service Canada is developing a model for a more consistent approach to allocating correctional officers among institutions, by introducing national standards for deployment. The model is based on the estimated minimum number of officers required to maintain a safe and orderly medium security institution. However, this model has not yet been adapted to fit each institution, nor has its potential impact on the need for overtime been assessed.
- Overtime costs have continued to increase in the last six years, significantly exceeding the amount budgeted. At the same time, spending on rehabilitation programs, training, and building maintenance has been less than the budgeted amounts. We were told that some key factors in the use of overtime by officers are unscheduled leave or training, the need to cover duties of vacant or unstaffed positions, the need to escort inmates to hospitals and courts, and the need to keep certain criminal groups away from each other. While we recognize that some overtime is necessary to deliver security services, we found no overall strategy or policy designed to control the use of overtime, and little analysis of the impact of overtime on salary expenses and programs and of whether using overtime is more economical than hiring additional personnel.
- In examining the increased use of overtime, we noted that, in some cases, employees' leave records are not updated consistently to reflect actual leave taken. In the month tested, as many as one third of absences in some institutions were not recorded in the human resources management system. Unrecorded leave allows for the same employee to take additional leave later; overtime is likely to be incurred each time that employee takes unscheduled leave.
- CSC focuses much of its effort on safety and security over economy and efficiency. We found little direction from national headquarters to institutions on how to manage their operations more economically and efficiently. The mandates of senior management committees refer to setting strategic direction and corporate policy and to providing advice, but none of them refers to responsibilities for economy and efficiency, such as establishing expectations, monitoring results, and taking corrective action. None of the performance information currently tracked looks at economy or efficiency of operations. Further, the requirement to manage economically and efficiently is not

included in senior management performance agreements, so there is little incentive for them to do so.

The Agency has responded. The Agency agrees with our recommendations and has committed to implementing corrective action. In some cases, this action has already begun. Its detailed responses follow each recommendation throughout the chapter.



Reporting on Health Indicators

Health Canada

Chapter 8 Main Points

What we examined

In 2000, the Government of Canada and provincial and territorial governments reached an historic agreement on health that set out a vision, principles, and an action plan for health system renewal. The First Ministers' commitments on health also called for improvements in accountability and reporting to Canadians and directed federal, provincial, and territorial health ministers to develop indicators that could be compared across jurisdictions and over time to measure progress on renewal. All jurisdictions later committed to public reporting every two years on a number of health indicators—for example, wait times and patient satisfaction with health services. First Ministers' agreements in 2003 and 2004 further reiterated reporting requirements.

Every two years, Health Canada produces the federal report on comparable health indicators, *Healthy Canadians: A Federal Report on Comparable Health Indicators*, as its response to the federal commitments to health indicator reporting made in the agreements. The report provides selected information on the general Canadian population and on population groups for which the federal government provides health services, such as military personnel and First Nations and Inuit populations. We examined to what extent the Department's reporting on health indicators met the commitments made in the First Ministers' health agreements. We also looked at whether its reporting has improved over time.

Why it's important

The three federal-provincial-territorial agreements represented an attempt by governments to promote renewal of the health care system. The agreements were accompanied by significant increases in federal transfers of funds to provinces and territories. The First Ministers also committed to improve public reporting to Canadians on the progress of health care renewal. The health indicators reports are an important vehicle for enhancing transparency and accountability. Public reporting by governments promotes accountability in a number of ways—for example, by allowing Canadians to see the extent to which governments are attaining their objectives and goals and assisting individuals, governments, and health care providers to make more informed choices.

What we found

- Health Canada met the specific health indicator reporting obligations that the agreements required of it—including identifying common indicators for reporting with its provincial and territorial counterparts. It has produced a health indicators report every two years.
- The *Healthy Canadians* reports do not fulfill the broader intent of the agreements—to provide the information Canadians need on the progress of health care renewal. The reports provide indicators, such as wait times for diagnostic services, without providing sufficient information to help readers interpret them. There is no discussion of what the indicators say about progress in health renewal. Without interpretation, their ability to inform Canadians is limited.
- Health Canada did not improve its reporting of health indicators in successive reports. The presentation of the information in all three editions of the report was essentially the same, with some modest improvements—despite the fact that Health Canada had received feedback through consultations with Canadians, indicating that their information needs were not being met through the reports.

The Department has responded. The Department agrees with our recommendations. Its detailed responses follow each recommendation throughout the Chapter.

Appendices

Appendix A Auditor General Act

Short Title

Short title 1. This Act may be cited as the *Auditor General Act*.

Interpretation

Definitions 2. In this Act,

“appropriate Minister” “appropriate Minister” has the meaning assigned by section 2 of the *Financial Administration Act*;

“Auditor General” “Auditor General” means the Auditor General of Canada appointed pursuant to subsection 3(1);

“category I department” “category I department” means

- (a) any department named in schedule I to the *Financial Administration Act*,
- (b) any department in respect of which a direction has been made under subsection 11(3) of the *Federal Sustainable Development Act*; and
- (c) any agency set out in the schedule to the *Federal Sustainable Development Act*.

“Commissioner” “Commissioner” means the Commissioner of the Environment and Sustainable Development appointed under subsection 15.1(1);

“Crown corporation” “Crown corporation” has the meaning assigned to that expression by section 83 of the *Financial Administration Act*;

“department” “department” has the meaning assigned to that term by section 2 of the *Financial Administration Act*;

“funding agreement” “funding agreement” has the meaning given to that expression by subsection 42(4) of the *Financial Administration Act*;

“recipient” “recipient” has the meaning given to that expression by subsection 42(4) of the *Financial Administration Act*;

“registrar” “registrar” means the Bank of Canada and a registrar appointed under Part IV of the *Financial Administration Act*;

“sustainable development”	“sustainable development” means development that meets the needs of the present without compromising the ability of future generations to meet their own needs;
Control	<p>2.1 (1) For the purpose of paragraph (d) of the definition “recipient” in subsection 42(4) of the <i>Financial Administration Act</i>, a municipality or government controls a corporation with share capital if</p> <ul style="list-style-type: none"> (a) shares of the corporation to which are attached more than fifty per cent of the votes that may be cast to elect directors of the corporation are held, otherwise than by way of security only, by, on behalf of or in trust for that municipality or government; and (b) the votes attached to those shares are sufficient, if exercised, to elect a majority of the directors of the corporation.
Control	<p>(2) For the purpose of paragraph (d) of the definition “recipient” in subsection 42(4) of the <i>Financial Administration Act</i>, a corporation without share capital is controlled by a municipality or government if it is able to appoint the majority of the directors of the corporation, whether or not it does so.</p>
Auditor General of Canada	
Appointment	<p>3. (1) The Governor in Council shall, by commission under the Great Seal, appoint an Auditor General of Canada after consultation with the leader of every recognized party in the Senate and House of Commons and approval of the appointment by resolution of the Senate and House of Commons.</p>
Tenure	<p>(1.1) The Auditor General holds office during good behaviour for a term of 10 years but may be removed for cause by the Governor in Council on address of the Senate and House of Commons.</p>
Ceasing to hold office	<p>(2) Despite subsections (1) and (1.1), the Auditor General ceases to hold office on reaching 65 years of age.</p>
Re-appointment	<p>(3) Once having served as the Auditor General, a person is not eligible for re-appointment to that office.</p>
Interim appointment	<p>(4) In the event of the absence or incapacity of the Auditor General or if that office is vacant, the Governor in Council may appoint any qualified auditor to hold that office in the interim for a term not exceeding six months, and that person shall, while holding office, be paid the salary or other remuneration and expenses that may be fixed by the Governor in Council.</p>

Salary

4. (1) The Auditor General shall be paid a salary equal to the salary of a puisne judge of the Supreme Court of Canada.

Pension benefits

(2) The provisions of the *Public Service Superannuation Act*, other than those relating to tenure of office, apply to the Auditor General except that a person appointed as Auditor General from outside the public service may, by notice in writing given to the President of the Treasury Board not more than sixty days after the date of his appointment as Auditor General, elect to participate in the pension plan provided for in the *Diplomatic Service (Special) Superannuation Act* in which case the provisions of that Act, other than those relating to tenure of office, apply to him and the provisions of the *Public Service Superannuation Act* do not apply to him.

Powers and Duties

Examination

5. The Auditor General is the auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund and as such shall make such examinations and inquiries as he considers necessary to enable him to report as required by this Act.

Idem

6. The Auditor General shall examine the several financial statements required by section 64 of the *Financial Administration Act* to be included in the Public Accounts, and any other statement that the President of the Treasury Board or the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have.

Annual and additional reports to the House of Commons

7. (1) The Auditor General shall report annually to the House of Commons and may make, in addition to any special report made under subsection 8(1) or 19(2) and the Commissioner's report under subsection 23(2), not more than three additional reports in any year to the House of Commons

- (a) on the work of his office; and,
- (b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Idem

(2) Each report of the Auditor General under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that

- (a) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;
- (b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;
- (c) money has been expended other than for purposes for which it was appropriated by Parliament;
- (d) money has been expended without due regard to economy or efficiency;
- (e) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented; or
- (f) money has been expended without due regard to the environmental effects of those expenditures in the context of sustainable development.

Submission of annual report to Speaker and tabling in the House of Commons

(3) Each annual report by the Auditor General to the House of Commons shall be submitted to the Speaker of the House of Commons on or before December 31 in the year to which the report relates and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receiving it or, if that House is not then sitting, on any of the first fifteen days on which that House is sitting after the Speaker receives it.

Notice of additional reports to Speaker and tabling in the House of Commons

(4) Where the Auditor General proposes to make an additional report under subsection (1), the Auditor General shall send written notice to the Speaker of the House of Commons of the subject-matter of the proposed report.

Submission of additional reports to Speaker and tabling in the House of Commons

(5) Each additional report of the Auditor General to the House of Commons made under subsection (1) shall be submitted to the House of Commons on the expiration of thirty days after the notice is sent pursuant to subsection (4) or any longer period that is specified in the notice and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receiving it or, if that House is not then sitting, on any of the first fifteen days on which that House is sitting after the Speaker receives it.

Inquiry and report	<p>7.1 (1) The Auditor General may, with respect to a recipient under any funding agreement, inquire into whether</p> <ul style="list-style-type: none"> (a) the recipient has failed to fulfil its obligations under any funding agreement; (b) money the recipient has received under any funding agreement has been used without due regard to economy and efficiency; (c) the recipient has failed to establish satisfactory procedures to measure and report on the effectiveness of its activities in relation to the objectives for which it received funding under any funding agreement; (d) the recipient has failed to faithfully and properly maintain accounts and essential records in relation to any amount it has received under any funding agreement; or (e) money the recipient has received under any funding agreement has been expended without due regard to the environmental effects of those expenditures in the context of sustainable development.
Report	<p>(2) The Auditor General may set out his or her conclusions in respect of an inquiry into any matter referred to in subsection (1) in the annual report, or in any of the three additional reports, referred to in subsection 7(1). The Auditor General may also set out in that report anything emerging from the inquiry that he or she considers to be of significance and of a nature that should be brought to the attention of the House of Commons.</p>
Special report to the House of Commons	<p>8. (1) The Auditor General may make a special report to the House of Commons on any matter of pressing importance or urgency that, in the opinion of the Auditor General, should not be deferred until the presentation of the next report under subsection 7(1).</p>
Submission of reports to Speaker and tabling in the House of Commons	<p>(2) Each special report of the Auditor General to the House of Commons made under subsection (1) or 19(2) shall be submitted to the Speaker of the House of Commons and shall be laid before the House of Commons by the Speaker of the House of Commons forthwith after receipt thereof by him, or if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting.</p>

Idem

9. The Auditor General shall

- (a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister of Finance may require, and
- (b) when and to the extent required by the Minister of Finance, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities authorized to be destroyed under the *Financial Administration Act*,

and he may, by arrangement with a registrar, maintain custody and control, jointly with that registrar, of cancelled and unissued securities.

Improper retention of public money

10. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the President of the Treasury Board.

Inquiry and report

11. The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought.

Advisory powers

12. The Auditor General may advise appropriate officers and employees in the federal public administration of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Treasury Board.

Access to Information

Access to information

13. (1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Auditor General is entitled to free access at all convenient times to information that relates to the fulfilment of his or her responsibilities and he or she is also entitled to require and receive from members of the federal public administration such information, reports and explanations as he or she considers necessary for that purpose.

(2) In order to carry out his duties more effectively, the Auditor General may station in any department any person employed in his office, and the department shall provide the necessary office accommodation for any person so stationed.

Stationing of officers in departments

Oath of secrecy

(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department or of a Crown corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department or Crown corporation.

Inquiries

(4) The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the *Inquiries Act*.

Reliance on audit reports of Crown corporations

14. (1) Notwithstanding subsections (2) and (3), in order to fulfil his responsibilities as the auditor of the accounts of Canada, the Auditor General may rely on the report of the duly appointed auditor of a Crown corporation or of any subsidiary of a Crown corporation.

Auditor General may request information

(2) The Auditor General may request a Crown corporation to obtain and furnish him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in his opinion, necessary to enable him to fulfil his responsibilities as the auditor of the accounts of Canada.

Direction of the Governor in Council

(3) If, in the opinion of the Auditor General, a Crown corporation, in response to a request made under subsection (2), fails to provide any or sufficient information or explanations, he may so advise the Governor in Council, who may thereupon direct the officers of the corporation to furnish the Auditor General with such information and explanations and to give him access to those records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries access to which is, in the opinion of the Auditor General, necessary for him to fulfil his responsibilities as the auditor of the accounts of Canada.

Staff of the Auditor General**Officers, etc.**

15. (1) The officers and employees that are necessary to enable the Auditor General to perform his or her duties are to be appointed in accordance with the *Public Service Employment Act* and, subject to subsections (2) to (5), the provisions of that Act apply to those officers and employees.

Public Service Employment Act — employer and deputy head

(2) The Auditor General may exercise the powers and perform the functions of the employer and deputy head under the *Public Service Employment Act* within the meaning of those terms in subsection 2(1) of that Act.

Public Service
Employment Act
—Commission

(3) The Auditor General may, in the manner and subject to the terms and conditions that the Public Service Commission directs, exercise the powers and perform the functions of that Commission under the *Public Service Employment Act*, other than its powers and functions in relation to the hearing of allegations by a candidate under sections 118 and 119 of that Act and its power to make regulations.

Delegation (4) The Auditor General may authorize any person employed in his or her office to exercise and perform, in any manner and subject to any terms and conditions that he or she directs, any of his or her powers and functions under subsections (2) and (3).

Sub-delegation (5) Any person authorized under subsection (4) may, subject to and in accordance with the authorization, authorize one or more persons under that person's jurisdiction to exercise any power or perform any function to which the authorization relates.

Appointment of Commissioner 15.1 (1) The Auditor General shall, in accordance with the *Public Service Employment Act*, appoint a senior officer to be called the Commissioner of the Environment and Sustainable Development who shall report directly to the Auditor General.

Commissioner's duties (2) The Commissioner shall assist the Auditor General in performing the duties of the Auditor General set out in this Act that relate to the environment and sustainable development.

Responsibility for human resources management 16. The Auditor General is authorized, in respect of persons appointed in his or her office, to exercise the powers and perform the functions of the Treasury Board that relate to human resources management within the meaning of paragraph 7(1)(e) and section 11.1 of the *Financial Administration Act*, as well as those of deputy heads under subsection 12(2) of that Act, as that subsection reads without regard to any terms and conditions that the Governor in Council may direct, including the determination of terms and conditions of employment and the responsibility for employer and employee relations.

Delegation 16.1 (1) The Auditor General may authorize any person employed in his or her office to exercise and perform, in any manner and subject to any terms and conditions that he or she directs, any of his or her powers and functions in relation to human resources management.

Sub-delegation (2) Any person authorized under subsection (1) may, subject to and in accordance with the authorization, authorize one or more persons under that person's jurisdiction to exercise any power or perform any function to which the authorization relates.

Contract for professional services

16.2 Subject to any other Act of Parliament or regulations made under any Act of Parliament, but without the approval of the Treasury Board, the Auditor General may, within the total dollar limitations established for his or her office in appropriation Acts, contract for professional services.

Classification standards

17. Classification standards may be prepared for persons employed in the office of the Auditor General to conform with the classifications that the Auditor General recognizes for the purposes of that office.

Delegation

18. The Auditor General may designate a senior member of his staff to sign on his behalf any opinion that he is required to give and any report, other than his annual report on the financial statements of Canada made pursuant to section 64 of the *Financial Administration Act* and his reports to the House of Commons under this Act, and any member so signing an opinion or report shall indicate beneath his signature his position in the office of the Auditor General and the fact that he is signing on behalf of the Auditor General.

Immunities

Immunity as witness

18.1 The Auditor General, or any person acting on behalf or under the direction of the Auditor General, is not a competent or compellable witness — in respect of any matter coming to the knowledge of the Auditor General or that person as a result of performing audit powers, duties or functions under this or any other Act of Parliament during an examination or inquiry — in any proceedings other than a prosecution for an offence under section 131 of the *Criminal Code* (perjury) in respect of a statement made under this Act.

Protection from prosecution

18.2 (1) No criminal or civil proceedings lie against the Auditor General, or against any person acting on behalf or under the direction of the Auditor General, for anything done, reported or said in good faith in the course of the performance or purported performance of audit powers, duties or functions under this or any other Act of Parliament.

Defamation

(2) For the purposes of any law relating to defamation,

(a) anything said, any information supplied or any document or thing produced in good faith by or on behalf of the Auditor General, in the course of the performance or purported performance of audit powers, duties or functions under this or any other Act of Parliament, is privileged; and

(b) any report made in good faith by the Auditor General in the course of the performance or purported performance of audit powers, duties or functions under this or any other Act of Parliament, and any fair and accurate account of the report made in good faith in a newspaper or any other periodical publication or in a broadcast, is privileged.

Estimates

Estimates

19. (1) The Auditor General shall annually prepare an estimate of the sums that will be required to be provided by Parliament for the payment of the salaries, allowances and expenses of his office during the next ensuing fiscal year.

Special report

(2) The Auditor General may make a special report to the House of Commons in the event that amounts provided for his office in the estimates submitted to Parliament are, in his opinion, inadequate to enable him to fulfil the responsibilities of his office.

Appropriation allotments

20. The provisions of the *Financial Administration Act* with respect to the division of appropriations into allotments do not apply in respect of appropriations for the office of the Auditor General.

Audit of the Office of the Auditor General

Audit of the office of the Auditor General

21. (1) A qualified auditor nominated by the Treasury Board shall examine the receipts and disbursements of the office of the Auditor General and shall report annually the outcome of his examinations to the House of Commons.

Submission of reports and tabling

(2) Each report referred to in subsection (1) shall be submitted to the President of the Treasury Board on or before the 31st day of December in the year to which the report relates and the President of the Treasury Board shall lay each such report before the House of Commons within fifteen days after receipt thereof by him or, if that House is not then sitting, on any of the first fifteen days next thereafter that the House of Commons is sitting.

Sustainable Development

Purpose

21.1 In addition to carrying out the functions referred to in subsections 23(3) and (4), the purpose of the Commissioner is to provide sustainable development monitoring and reporting on the progress of category I departments towards sustainable development, which is a continually evolving concept based on the integration of social, economic and environmental concerns, and which may be achieved by, among other things,

- (a) the integration of the environment and the economy;
- (b) protecting the health of Canadians;
- (c) protecting ecosystems;
- (d) meeting international obligations;
- (e) promoting equity;
- (f) an integrated approach to planning and making decisions that takes into account the environmental and natural resource costs of different economic options and the economic costs of different environmental and natural resource options;

	<ul style="list-style-type: none"> (g) preventing pollution; and (h) respect for nature and the needs of future generations.
Petitions received	<p>22. (1) Where the Auditor General receives a petition in writing from a resident of Canada about an environmental matter in the context of sustainable development that is the responsibility of a category I department, the Auditor General shall make a record of the petition and forward the petition within fifteen days after the day on which it is received to the appropriate Minister for the department.</p>
Acknowledgement to be sent	<p>(2) Within fifteen days after the day on which the Minister receives the petition from the Auditor General, the Minister shall send to the person who made the petition an acknowledgement of receipt of the petition and shall send a copy of the acknowledgement to the Auditor General.</p>
Minister to respond	<p>(3) The Minister shall consider the petition and send to the person who made it a reply that responds to it, and shall send a copy of the reply to the Auditor General, within</p> <ul style="list-style-type: none"> (a) one hundred and twenty days after the day on which the Minister receives the petition from the Auditor General; or (b) any longer time, where the Minister personally, within those one hundred and twenty days, notifies the person who made the petition that it is not possible to reply within those one hundred and twenty days and sends a copy of that notification to the Auditor General.
Multiple petitioners	<p>(4) Where the petition is from more than one person, it is sufficient for the Minister to send the acknowledgement and reply, and the notification, if any, to one or more of the petitioners rather than to all of them.</p>
Duty to monitor	<p>23. (1) The Commissioner shall make any examinations and inquiries that the Commissioner considers necessary in order to monitor</p> <ul style="list-style-type: none"> (a) the extent to which category I departments have contributed to meeting the targets set out in the Federal Sustainable Development Strategy and have met the objectives, and implemented the plans, set out in their own sustainable development strategies laid before the House of Commons under section 11 of the <i>Federal Sustainable Development Act</i>; and (b) the replies by Ministers required by subsection 22(3).

Commissioner's report	(2) The Commissioner shall, on behalf of the Auditor General, report annually to the House of Commons concerning anything that the Commissioner considers should be brought to the attention of that House in relation to environmental and other aspects of sustainable development, including
	<ul style="list-style-type: none"><li data-bbox="502 367 1377 566">(a) the extent to which category I departments have contributed to meeting the targets set out in the <i>Federal Sustainable Development Strategy</i> and have met the objectives, and implemented the plans, set out in their own sustainable development strategies laid before that House under section 11 of the <i>Federal Sustainable Development Act</i>;<li data-bbox="502 576 1377 655">(b) the number of petitions recorded as required by subsection 22(1), the subject-matter of the petitions and their status; and<li data-bbox="502 665 1377 755">(c) the exercising of the authority of the Governor in Council under subsections 11(3) and (4) of the <i>Federal Sustainable Development Act</i>.
Duty to examine	(3) The Commissioner shall examine the report required under subsection 7(2) of the <i>Federal Sustainable Development Act</i> in order to assess the fairness of the information contained in the report with respect to the progress of the federal government in implementing the <i>Federal Sustainable Development Strategy</i> and meeting its targets.
Duty to report	(4) The Commissioner shall include in the report referred to in subsection (2) the results of any assessment conducted under subsection (3) since the last report was laid before the House of Commons under subsection (5).
Submission and tabling of report	(5) The report required by subsection (2) shall be submitted to the Speaker of the House of Commons and shall be laid before that House by the Speaker on any of the next 15 days on which that House is sitting after the Speaker receives it.

Appendix B Reports of the Standing Committee on Public Accounts to the House of Commons, 2007–08

The following reports have been tabled since our October 2007 Report went to print. They are available on the website of Canada's Parliament (www.parl.gc.ca).

39th Parliament, 2nd Session

Report 1—Motion of commendation (Adopted by the Committee on 20 November 2007; presented to the House on 21 November 2007)

Report 2—Chapter 9, Pension and Insurance Administration—Royal Canadian Mounted Police, of the November 2006 Report of the Auditor General of Canada (Adopted by the Committee on 6 December 2007; presented to the House on 10 December 2007)

Report 3—Pursuant to the motion of the Committee of 22 November 2007—consideration of Barbara George's previous testimony (Adopted by the Committee on 7 February 2008; presented to the House on 12 February 2008)

Report 4—Chapter 1, Expenditure Management System at the Government Centre, and Chapter 2, Expenditure Management System in Departments, of the November 2006 Report of the Auditor General of Canada (Adopted by the Committee on 12 February 2008; presented to the House on 25 February 2008)

Report 5—Chapter 11, Protection of Public Assets—Office of the Correctional Investigator, of the November 2006 Report of the Auditor General of Canada (Adopted by the Committee on 12 February 2008; presented to the House on 25 February 2008)

Report 6—Departmental answers to questions about government responses (39th Parliament) (Adopted by the Committee on 14 February 2008; presented to the House on 25 February 2008)

Report 7—Chapter 3, Large Information Technology Projects, of the November 2006 Report of the Auditor General of Canada (Adopted by the Committee on 14 February 2008; presented to the House on 25 February 2008)

Report 8—Departmental Performance Report of the Office of the Auditor General (Adopted by the Committee on 14 February 2008; presented to the House on February 25, 2008)

Report 9—Chapter 5, Passports Services—Passport Canada, of the February 2007 Status Report of the Auditor General of Canada (Adopted by the Committee on 28 February 2008; presented to the House on 5 March 2008)

Report 10—Chapter 7, Management of Forensic Laboratory Services—Royal Canadian Mounted Police, of the May 2007 Report of the Auditor General of Canada (Adopted by the Committee on 28 February 2008; presented to the House on 5 March 2008)

Report 11—Public Accounts of Canada 2007 (Adopted by the Committee on 28 February 2008; presented to the House on 5 March 2008)

Report 12—Chapter 4, Military Health Care—National Defence, of the October 2007 Report of the Auditor General of Canada (Adopted by the Committee on 17 April 2008; presented to the House on 28 April 2008)

Report 13—Chapter 4, Managing the Coast Guard Fleet and Marine Navigational Services—Fisheries and Oceans Canada, of the February 2007 Status Report of the Auditor General of Canada (Adopted by the Committee on 17 April 2008; presented to the House on 28 April 2008)

Report 14—Main Estimates 2008–2009: Vote 15 under Finance, and Part III—Report on Plans and Priorities and Departmental Performance Report of the Office of Auditor General of Canada (Adopted by the Committee on 29 April 2008; presented to the House on 30 April 2008)

Report 15—Chapter 5, Keeping the Border Open and Secure—Canada Border Services Agency, of the October 2007 Report of the Auditor General of Canada (Adopted by the Committee on 27 May 2008; presented to the House on 27 May 2008)

Report 16—Chapter 3, Inuvialuit Final Agreement, of the October 2007 Report of the Auditor General of Canada (Adopted by the Committee on 29 May 2008; presented to the House on 9 June 2008)

Report 17—Chapter 5, Managing the Delivery of Legal Services to Government—Department of Justice Canada, of the May 2007 Report of the Auditor General of Canada (Adopted by the Committee on 29 May 2008; presented to the House on 9 June 2008)

Report 18—Chapter 4, Canadian Agricultural Income Stabilization—Agriculture and Agri-Food Canada, of the May 2007 Report of the Auditor General of Canada (Adopted by the Committee on 10 June 2008; presented to the House on 16 June 2008)

Appendix C Report on the audit of the President of the Treasury Board's report, *Tabling of Crown Corporations Reports in Parliament*

Tablings in Parliament for parent Crown corporations: Annual reports and summaries of corporate plans and budgets

Section 152 of the *Financial Administration Act* (the Act) requires the President of the Treasury Board to lay before each House of Parliament a report on the timing of the tabling, by appropriate ministers, of annual reports and summaries of corporate plans and of budgets of Crown corporations. This report of the President of the Treasury Board is included in the *2008 Annual Report to Parliament—Crown Corporations and Other Corporate Interests of Canada*, which must be tabled by 31 December.

The Act requires the Auditor General to audit the accuracy of the President of the Treasury Board's report on the timing of tablings and to present the results in her annual report to the House of Commons.

At the time that our annual report was going to print, we were unable to include the results of the above audit, since the President of the Treasury Board's report had not yet been finalized. The auditor's report, which is required by the Act, will therefore be included in the next Report of the Auditor General to the House of Commons. It will also be appended to this year's report of the President of the Treasury Board.

Appendix D Costs of Crown corporation audits conducted by the Office of the Auditor General of Canada

The Office is required, under section 147 of the *Financial Administration Act*, to disclose its costs incurred in preparing annual audit (Exhibit D.1) and special examination reports on Crown corporations.

An audit report includes an opinion on a corporation's financial statements and on its compliance with specified authorities. It may also include reporting on any other matter deemed significant.

A special examination determines whether a corporation's financial and management control and information systems and its management practices provide reasonable assurance that

- assets have been safeguarded and controlled;
- financial, human, and physical resources have been managed economically and efficiently; and
- operations have been carried out effectively.

In the 2007–08 fiscal year, the Office completed the special examination of eight Crown corporations. The costs incurred are included in the following table:

Atlantic Pilotage Authority	\$327,319
Atomic Energy of Canada Limited	\$1,033,677
Blue Water Bridge Authority	\$583,653
Cape Breton Development Corporation	\$406,977
Farm Credit Canada	\$829,467
Great Lakes Pilotage Authority	\$438,980
International Development Research Centre	\$967,738*
National Capital Commission	\$953,082

*Preliminary costs subject to year-end adjustments

Exhibit D.1 Cost of preparing annual audit reports for fiscal years ending on or before 31 March 2008

Crown corporation	Fiscal year ended	Cost
Atlantic Pilotage Authority	31.12.07	\$98,674
Atomic Energy of Canada Limited (joint auditor)	31.03.08	371,887*
Blue Water Bridge Authority	31.08.07	123,502
Business Development Bank of Canada (joint auditor)	31.03.08	416,920*
Canada Council for the Arts	31.03.08	151,461*
Canada Deposit Insurance Corporation	31.03.08	141,027*
Canada Development Investment Corporation (joint auditor)	31.12.07	114,658*
Canada Lands Company Limited (joint auditor)	31.03.08	245,038*
Canada Mortgage and Housing Corporation (joint auditor)	31.12.07	599,013*
Canada Post Corporation (joint auditor)	31.12.07	689,530*
Canadian Race Relations Foundation	31.03.08	108,428*
Canadian Air Transport Security Authority	31.03.08	498,214*
Canadian Broadcasting Corporation	31.03.08	854,899*
Canadian Commercial Corporation	31.03.08	184,492*
Canadian Dairy Commission	31.07.07	155,893
Canadian Museum of Civilization	31.03.08	169,124*
Canadian Museum of Nature	31.03.08	102,219*
Canadian Tourism Commission	31.12.07	300,795*
Cape Breton Development Corporation	31.03.08	120,612*
Cape Breton Growth Fund Corporation	31.03.08	33,872*
Defence Construction (1951) Limited	31.03.08	55,363*
Enterprise Cape Breton Corporation	31.03.08	139,073*
Export Development Canada	31.12.07	1,052,007*
Farm Credit Canada	31.03.08	805,143*
Federal Bridge Corporation Limited, The	31.03.08	109,884*
Freshwater Fish Marketing Corporation	30.04.07	233,167
Great Lakes Pilotage Authority	31.12.07	105,018*
International Development Research Centre	31.03.08	167,294*
Jacques Cartier and Champlain Bridges Incorporated, The	31.03.08	61,936*
Laurentian Pilotage Authority	31.12.07	121,174*
Marine Atlantic Inc.	31.03.08	196,857*
National Arts Centre Corporation	31.08.07	198,753
National Capital Commission	31.03.08	270,363*
National Gallery of Canada	31.03.08	87,658*
National Museum of Science and Technology	31.03.08	112,918*
Old Port of Montréal Corporation Inc.	31.03.08	147,544*
Pacific Pilotage Authority	31.12.07	75,359*
Parc Downsview Park Inc.	31.03.08	131,499*
Public Sector Pension Investment Board	31.03.08	494,741*
Ridley Terminals Inc.	31.12.07	99,584*

Exhibit D.1 Cost of preparing annual audit reports for fiscal years ending on or before 31 March 2008 (continued)

Crown corporation	Fiscal year ended	Cost
Royal Canadian Mint	31.12.07	594,595*
Seaway International Bridge Corporation Ltd., The	31.03.08	79,546*
Standards Council of Canada	31.03.08	76,490*
Telefilm Canada	31.03.08	138,545*
VIA Rail Canada Inc. (joint auditor)	31.12.07	754,932*

* Preliminary costs subject to year-end adjustments

Report of the Auditor General of Canada to the House of Commons—December 2008

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2008



DECEMBER

Report of the
**Auditor General
of Canada**
to the House of Commons

Chapter 1
**A Study of Federal Transfers to Provinces
and Territories**



Office of the Auditor General of Canada



2008



Report of the
**Auditor General
of Canada**
to the House of Commons

DECEMBER

Chapter 1
A Study of Federal Transfers to Provinces
and Territories



Office of the Auditor General of Canada

The December 2008 Report of the Auditor General of Canada comprises Matters of Special Importance—2008, Main Points—Chapters 1 to 8, Appendices, and eight chapters. The main table of contents for the Report is found at the end of this publication.

The Report is available on our website at www.oag-bvg.gc.ca.

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Chapter

1

A Study of Federal Transfers
to Provinces and Territories

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A Study of Federal Transfers to Provinces and Territories

Main Points

What we examined

The federal government uses a number of mechanisms to transfer funds to the provinces and territories for general areas of spending such as health or for specific purposes such as improving infrastructure. In 2006–07, these federal transfers amounted to approximately \$50 billion, or just under 23 percent of federal spending.

Our study examined the three main mechanisms used by the federal government to transfer funds to the provinces and territories. We also looked at the nature and extent of conditions attached to these transfers.

We undertook this study to inform parliamentarians about the federal government's transfers to the provinces and territories. Because this is a study and not an audit, it is descriptive, and does not include recommendations.

As auditors, we recognize that decisions on whether, and to what extent, conditions are attached to transfers are policy decisions, often involving sensitive federal-provincial/territorial negotiations. We do not question these decisions.

We did not examine funding arrangements with First Nations, payments to foundations or municipal governments, or transfer payments to individual Canadians.

Why it's important

Federal transfers to the provinces and territories make up a significant portion of the federal government's annual spending. They are a major source of funds for services provided to Canadians in areas such as health, post-secondary education, and housing.

The nature and extent of conditions attached to federal transfers to the provinces and territories varies significantly. While some transfers have specific conditions that recipients must meet, others are unconditional and there is no requirement for a province or territory to report to the federal government on the use of the transferred funds. It is not always clear to parliamentarians which transfers have conditions attached and what the nature and extent of those conditions are.

What we found

- The federal government uses three main mechanisms to transfer funds to the provinces and territories. The first and largest includes four major transfers that recur annually by law and are managed by Finance Canada: the Canada Health Transfer, the Canada Social Transfer, Equalization Program transfers, and Territorial Formula Financing (just over \$42 billion transferred in the 2006–07 fiscal year). The second mechanism involves the transfer of funds by individual federal departments to support specific program areas (just over \$5 billion in 2006–07). Finally, the federal government also transfers funds to the provinces and territories using trusts (just over \$3 billion in 2006–07).
- According to the federal government, the extent of federal accountability for how the provinces and territories spend transferred funds depends on the nature and extent of conditions attached to the transfers. In all cases, the federal government is accountable to Parliament for its decision to use transfers with or without conditions as the best policy choice available in the circumstances.
- Some transfers involve conditions that, for example, obligate recipients to provide the federal government with information on how they spent the transferred funds and to what effect. The federal government must demonstrate that it is monitoring provincial and territorial compliance with these conditions and that it is taking action in cases of non-compliance. Where transfers have limited or no conditions, the provinces and territories have the flexibility to spend the funds according to their own priorities, with no legal obligation to account to the federal government for the spending.
- A significant addition to the transfer mechanisms used by the federal government was its introduction of trusts in 1999. Since then, 23 trusts have been established to transfer almost \$27 billion to the provinces and territories. In each case, the federal government has stated the intended purposes of the trusts in public announcements. Once the eligibility conditions for these trusts have been met, no additional legal conditions obligate provinces and territories to spend the funds for the purposes announced.
- Once the provinces and territories have established their eligibility to draw funds from the trust, they become accountable in principle to their own citizens, not to the federal government, for how they use the funds. In this sense, these trusts are similar to the four major transfers.
- Where transfers have conditions, how well the federal government monitors the conditions is subject to performance audits by our Office and our audit reports are provided to Parliament. For all transfers audited, we ensure that the amount paid is properly recorded in accordance with Public Sector Accounting Board standards.

Introduction

1.1 The *Constitution Act of 1867* assigns a range of exclusive legislative powers to the federal and provincial orders of government, as well as joint jurisdiction over other specific areas. Over time, however, it has become common in practice for the federal government to spend in areas over which it does not exercise legislative jurisdiction. Exhibit 1.1 lists areas of federal, provincial, and shared activity as described by Finance Canada.

1.2 The federal government delivers programs and services to Canadians in a number of distinct ways. It directly administers some programs and services (for example, issuing passports). In other cases, it transfers funds to the provinces and territories, with the approval of Parliament, for specified purposes (for example, to support labour market development). Provinces and territories are then responsible for designing and delivering related programs and services to Canadians.

1.3 Federal transfers to the provinces and territories constitute a significant portion of the federal government's annual expenses. They are a major source of funds for services provided to Canadians in areas such as health care, post-secondary education, and housing. In the 2006–07 fiscal year, these transfers amounted to approximately \$50 billion, or just under 23 percent of federal expenses.

1.4 Some federal transfers to the provinces and territories are conditional, meaning that the federal government requires recipients of the funding to fulfill certain commitments, with consequences for failing to meet the conditions. Such conditions may be explicitly stated in agreements between the federal government and provincial or territorial governments, or found in other sources, such as statutes.

1.5 Other transfers are unconditional, meaning that recipient provinces and territories can spend these payments according to their own priorities, and are not obligated to report to the federal government how they spent the transferred funds or what effect that spending had.

Focus of the study

1.6 We carried out this study to inform parliamentarians about the federal government's transfers to the provinces and territories. In particular, we wanted to describe the main mechanisms that the federal government uses to accomplish these transfers, in order to answer questions parliamentarians have about them. We also wanted to outline the Office's mandate to audit these transfers.

Exhibit 1.1 Areas of federal, provincial, and shared activity

Sector	Federal	Provincial
Money and banking	✓	
International and interprovincial trade	✓	
Airlines and railways	✓	
Telecommunications and broadcasting	✓	
Foreign affairs/international assistance	✓	
Defence and veterans affairs	✓	
Border security	✓	
Employment insurance	✓	
Criminal law	✓	
Fiscal equalization	✓	
Indirect taxation	✓	
Direct taxation	✓	✓
Pensions and income support	✓	✓
Aboriginal peoples	✓	✓
Immigration	✓	✓
Agriculture	✓	✓
Industry	✓	✓
Environment	✓	✓
Policing	✓	✓
Transportation infrastructure	✓	✓
Housing	✓	✓
Post-secondary education, training, and research	✓	✓
Public health	✓	✓
Primary and secondary education		✓
Health care		✓
Municipal institutions		✓
Social assistance and social services		✓
Natural resources		✓
Administration of justice		✓

Source: Focusing on Priorities, Budget 2006, Department of Finance Canada

1.7 We examined only mechanisms that the federal government uses to transfer funds to the provinces and territories. Because this is a study rather than an audit, it is descriptive, and does not include recommendations.

1.8 More details on the objectives, scope, and approach of the study are in *About the Study* at the end of this chapter.

Observations

1.9 For the purposes of this study, we identified three main mechanisms used by the federal government to transfer funds to the provinces and territories. These are

- four major statutory transfers managed by Finance Canada,
- program-specific transfers managed by individual departments and agencies, and
- trusts (also managed by Finance Canada).

Four major federal transfers to provinces and territories

1.10 In the 2006-07 fiscal year, the federal government provided \$42.3 billion—or 19 percent of its total expenses of \$222 billion—to provincial and territorial governments, through four major recurring transfers managed by Finance Canada as authorized by the *Federal-Provincial Fiscal Arrangements Act*. These transfers, and the amounts transferred in the 2006-07 fiscal year, are listed in Exhibit 1.2.

Exhibit 1.2 Four major transfers to the provinces and territories accounted for 19% of federal expenses in the 2006-07 fiscal year

Transfer	(\$ millions)
Total federal expenses	222,214
Major transfers	
Canada Health Transfer	20,140
Canada Social Transfer	8,500
Equalization Program	11,535
Territorial Formula Financing	2,118
Total	42,293
(19.0% of total federal expenses)	

Source: Department of Finance Canada and the Public Accounts of Canada

Federal tax transfer—Reduction by the federal government of its tax rates, upon agreement, to allow provinces and territories to raise their tax rates by an equivalent amount. With a tax transfer, the changes in federal and provincial/territorial tax rates offset one another, and revenue that once flowed to the federal government now flows to the provincial/territorial governments. There is no change in the overall taxes paid by Canadians. Specifically, a federal tax transfer involves the federal government ceding some of its tax room to provincial and territorial governments.

1.11 The \$42.3 billion does not include **federal tax transfers**, which in the 2006–07 fiscal year provided additional support of approximately \$20 billion, including \$12.6 billion through the Canada Health Transfer and \$7.8 billion through the Canada Social Transfer. According to Finance Canada, the value of this tax transfer reflects the current value of the federal taxation transferred, or ceded, to provinces in 1977 (equalling 13.5 percentage points of its Personal Income Tax and 1.0 percentage point of its Corporate Income Tax). This value is calculated in accordance with applicable legislation.

Evolution of federal support for health and social programs

1.12 The federal government has used transfers to support provincial and territorial governments in providing health care, post-secondary education, social assistance and social services, and programs for children. In the 1950s and 1960s, the federal government encouraged development of nation-wide hospital, medical care, social, and post-secondary education programs. The costs of these programs were for the most part shared equally between the federal government and the provinces and territories. Federal legislation and related agreements outlined program objectives and standards, and stipulated which types of expenses were eligible to be covered. Provincial and territorial governments provided detailed documentation of their expenditures to the federal government.

1.13 By 1977, health care and post-secondary education programs were well established. To allow provinces greater flexibility in allocating funding and to reduce the administrative burden, federal transfer support shifted away from cost sharing to block funding. In 1996, two existing support programs, Established Programs Financing (a **block transfer** supporting health and post-secondary education) and the Canada Assistance Plan (the last major cost-sharing program supporting social programs), were merged into the Canada Health and Social Transfer program, which supported broad federal spending priorities, including health care and social programs.

1.14 Effective 1 April 2004, the Canada Health and Social Transfer was restructured into the Canada Health Transfer and the Canada Social Transfer.

1.15 The Canada Health Transfer. This is a federal transfer provided to each province and territory to support health care. Funding is provided through both cash payments and tax transfers. The requirement attached to this transfer is that provinces and territories meet the conditions in the *Canada Health Act*. These conditions include the five criteria that apply to health services (public administration,

comprehensiveness, universality, portability, and accessibility), provisions relating to extra-billing and user charges, and conditions related to the provision of information and recognition of federal financial contributions. Health Canada is responsible for monitoring compliance with these conditions.

1.16 The Canada Social Transfer. This is a federal transfer to provinces and territories to support post-secondary education, social assistance and social services, and programs for children. This transfer consists of both cash and tax transfer components. The sole condition of this transfer is that provinces and territories meet a national standard: no one is required to live in a province or territory for a minimum period of time before becoming eligible to receive social assistance. The *Federal-Provincial Fiscal Arrangements Act* also states that the social transfer must finance social programs in a manner that provides provincial flexibility. The Act also states that all provincial and territorial governments are invited to work together to develop a set of shared principles and objectives that could form a foundation for promoting the well-being of Canadians.

1.17 Equalization Program Transfer. This transfer was established in 1957 and enshrined in the Constitution. It is intended to enable less-prosperous provinces to provide public services that are reasonably comparable to those provided by more-prosperous provinces, at reasonably comparable levels of taxation. Equalization Program payments are unconditional. The provinces that receive them can spend the funds according to their own priorities.

1.18 Territorial Formula Financing. This is an annual, unconditional federal transfer to territorial governments designed to take into account the higher costs of providing public services in the territories. This transfer is similar to that of the Equalization Program, in that its objective is to enable the territories to provide a range of public services that are reasonably comparable to those offered by the provincial governments, at reasonably comparable levels of taxation.

1.19 As transfer mechanisms have evolved, so too have reporting arrangements. The nature of cost-sharing programs required that provincial governments report their expenses directly to the federal government. More recent large transfers reflect a shift away from government-to-government reporting and toward government-to-citizen reporting. Under this model, the federal government reports to Parliament on how much it transferred to provincial and territorial governments and why. Recipient governments are then expected to report to their legislative assemblies,

their citizens, and their stakeholders on how they use public funds, including federal transfers. Provincial and territorial compliance with these reporting expectations may be subject to audit by their respective auditors.

Program-specific transfers to provinces and territories

Contributions—Conditional transfer payments to an individual or organization for a specified purpose. These payments are pursuant to a contribution agreement and are subject to being accounted for and audited.

Grants—Transfer payments made to individuals or organizations. Although grant payments are not subject to being accounted for or audited, the eligibility and entitlement of grant recipients may be verified, and they may need to meet certain preconditions.

1.20 A second mechanism for federal transfers is one in which individual federal departments transfer funds to provinces and territories to support specific program areas. The Treasury Board's 2000 Policy on Transfer Payments sets out the types of conditions attached to these transfers. These allow federal departments to require recipients of federal **contributions** (as distinct from recipients of federal **grants**) to report on the use of the funds and to provide audited financial information or submit to an audit by the federal government. Depending on the program, Parliament reviews and approves spending on transfers, either through its approval of enabling statutes or as part of the annual Estimates process.

1.21 In the 2006–07 fiscal year, according to the Public Accounts, just over \$5 billion, or just over 2 percent of the federal government's expenses, comprised program-specific transfers to provinces or territories. Close to 75 percent of this total was accounted for by five federal departments: Human Resources and Social Development Canada, Transport Canada (including Infrastructure Canada), Natural Resources Canada, Indian and Northern Affairs Canada, and Agriculture and Agri-Food Canada (including the Canadian Food Inspection Agency).

1.22 Examples from three departments—Agriculture and Agri-Food Canada, the Department of Justice, and Human Resources and Social Development Canada—illustrate the types of conditions attached to these transfers.

Types of conditions

1.23 **Agriculture and Agri-Food Canada.** In 2007, the Department entered into bilateral agreements with nine provinces to share the costs associated with assisting industry to adapt to new controls on animal feed. This program, referred to as the Facilitation of the Disposal of Specified Risk Materials (SRM) Program, was established to address the risk that bovine spongiform encephalopathy (mad cow disease) might affect food safety, the environment, or the agricultural industry. The bilateral agreements provided for federal funding of 60 percent of eligible provincial expenses. Total federal funding for this

program was \$76.5 million, to be spent by the end of the 2008–09 fiscal year. Payments are made to the participating provinces for eligible expenses as defined in the federal-provincial agreements.

1.24 In these bilateral agreements, the provinces agree to adhere to a number of conditions, and it is Agriculture and Agri-Food Canada's responsibility to see that they are met. Among the conditions are those related to financial and compliance audits, progress reports, environmental assessments, program evaluation, and acknowledgement in communications materials and products of federal support for the program.

1.25 Department of Justice. Criminal legal aid is a shared responsibility between the federal government, which has authority in matters of criminal law and criminal procedure, and provincial and territorial governments, which have authority for the administration of justice. On the basis of this shared responsibility, a long-standing federal-provincial partnership has ensured coordination between federal criminal law-making powers and provincial responsibility for the administration of justice. The provinces and territories deliver legal aid services through entities created under statutory authority in each of the 10 provinces and three territories.

1.26 Through bilateral agreements, the federal government provides contribution funding to the provinces and territories to support criminal legal aid for eligible adults as well as for youth charged under the *Youth Criminal Justice Act*, and for immigration and refugee legal aid in provinces that provide these services. The transfer amounts are based on negotiated funding formulas. Justice officials told us that audited claims for shareable expenses provide assurance that these transfers are being used for the agreed purposes. In the 2006–07 fiscal year, the federal government transferred close to \$120 million to the provinces and territories for criminal, and immigration and refugee legal aid. Recipient jurisdictions agreed to conditions, including those related to

- financial auditing of program expenses,
- provision of defined services,
- performance measurement and participation in federally funded program evaluation,
- bilateral sharing of information related to criminal legal aid, and
- provincial acknowledgement of the federal contribution to public legal education activities and materials.

1.27 Human Resources and Social Development Canada.

The Department has, since the mid-1990s, made contribution funding available to the provinces and territories to support a range of labour market development programs intended to address labour market challenges that both employers and workers face. These programs focused on enhancing the work-related skills of recipients of Employment Insurance (EI) benefits, for example, through specific skills training programs and work experience, and by assisting employers to hire EI recipients. Training and support services to EI recipients were typically delivered either through provincial programs or by third parties under contract.

1.28 In the 2006–07 fiscal year, payments totalled \$1.95 billion, of which just over \$1 billion went to participating provinces and territories in the form of transfer payments. The terms of federal-provincial-territorial agreements on labour market development included requirements related to

- performance measurement and reporting,
- program evaluation,
- information sharing,
- recognition of the federal contribution in public information, and
- participation in joint management committees.

1.29 In 2008, a new approach to federal support for labour market programs was introduced. It continued the devolution of primary responsibility for the design and delivery of labour market programs to the provinces and territories. The federal-provincial-territorial agreements, which define this arrangement, provide for \$500 million to be distributed annually by the federal government on a *per capita* basis. In exchange for the increased flexibility accorded the provinces and territories in designing and delivering services under the agreements, they agree to accept and adhere to an accountability framework that encompasses planning, financial reporting and auditing, performance measurement, public reporting of results, program evaluation, participation in a joint committee, and public acknowledgement of federal funding. One innovative aspect of this agreement is that it requires funding recipients to demonstrate (with independent verification) that the federal funding has been used to support program activities that are in addition to, and not substituted for, those supported by normal provincial funding.

Revisions to the transfer payment policy

1.30 A renewed version of the federal Policy on Transfer Payments was approved in May 2008 for implementation in October. The changes to the policy are in keeping with the recommendations of an independent panel established in 2006 to examine federal grants and contributions programs. One of the panel's recommendations was that the oversight and reporting requirements for federal transfers be tailored to the capacities and circumstances of funding recipients. The panel's view was that this recommendation applies "quite directly" to federal grants and contributions to the provinces and territories, where "audit standards and capacities may well be as high as those of the federal government."

Federal use of trusts

Trusts—A trust is created when one party, the settlor, transfers legal ownership of property to another party, the trustee, for the benefit of a third party, the beneficiary. In the case of trusts used to transfer federal funds to the provinces and territories, the federal government is the settlor, the provinces and territories are the beneficiaries, and an independent financial institution is the trustee.

1.31 **Trusts** are a third mechanism that the federal government has used since 1999 to transfer funds to the provinces and territories. The trustee (in this case, an independent financial institution) allocates the funds in the trusts to the beneficiaries of the trusts (in this case, the provinces and territories), in accordance with the trust agreement. Trusts have been used by the Government of Canada to respond to particular short-term priority pressures in well-established areas of provincial responsibility (such as medical equipment) by providing targeted funds available to the federal government at year-end. In each case, the federal government has given provinces and territories the flexibility to draw down and use the funds according to their own priorities. With some exceptions, trusts that the federal government has created for these purposes have been announced in federal budget proposals. Parliament has then approved these transfers of funds through the legislative process.

1.32 In accordance with the current standards of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants and the stated accounting policies of the federal government, transfers are expensed in the year they are announced, provided that a public commitment is made, that enabling legislation or Parliamentary authorization for payment is received prior to completion of the financial statements, and that any conditions are met prior to 31 March. Accordingly, letters of agreement need to be in place and all conditions must be met by the provinces and territories by 31 March. The accounting standard for government transfers, which would apply to intergovernmental transfers through trusts, is currently under review by the accounting profession.

1.33 Between 1999 and 2008, the federal government transferred almost \$27 billion to the provinces and territories using trusts (Exhibit 1.3). The individual value of these trusts ranged from \$120 million to \$4.25 billion. From 1999 to 2003 (inclusively) \$13 billion was transferred through the establishment of six trusts. This compares to the \$14 billion transferred from 2004 to 2008 (inclusively) through 17 trusts. In the 2006–07 fiscal year, five trusts were created to transfer \$3.3 billion to the provinces and territories (compared to the approximately \$50 billion in total transfers that year; Exhibit 1.4).

1.34 Transfers provided through trusts payable to the provinces and territories are earmarked for specific purposes in public announcements by the federal government. In order to become eligible to draw on these trust funds, provinces and territories must confirm in writing their understanding of the purposes of the trust and name an authorized agent (typically the deputy minister of finance of the recipient jurisdiction).

1.35 Recent federal trust announcements have included “operating principles,” which outline the purpose of the funding and the need for provinces and territories to report to their own citizens on how the funds are spent and what results are achieved. However, because these operating principles are not part of the trust agreements, they are not legally binding on the provinces and territories with respect to how the transferred funds are spent.

1.36 In recent years, as an additional condition of eligibility, provinces and territories must publicly opt-in as a beneficiary of the trust by making a public announcement regarding how they will use the funds. These public announcements must be in line with the federal operating principles for the trust.

1.37 Exhibit 1.5 illustrates the chronology of actions taken to establish the Public Transit Capital Trust 2008, including the requirement that recipient governments publicly announce to their own citizens how the funds will be spent.

1.38 As noted earlier, provinces and territories must meet all conditions of eligibility in order to qualify as beneficiaries under a federal trust. However, once the federal government has deposited the funds in a trust account, the money becomes the property of the trustee. The trustee pays out the amount allocated to the beneficiaries in accordance with the trust agreements.

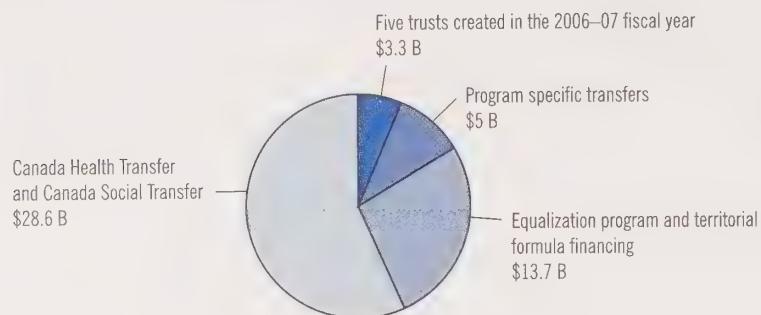
Exhibit 1.3 From 1999 to 2008, the federal government transferred some \$27 billion to the provinces and territories using trusts

Source of announcement	Purpose	To be drawn down by	(\$ millions)
Budget 1999	One-time supplement to Canada Health and Social Transfer (for health)	2001–02	3,500
Budget 2000	Supplement to Canada Health and Social Transfer (for post-secondary education and health care)	2003–04	2,500
September 2000 Agreement on Health Renewal	Medical Equipment Fund in support of the 2000 Health Accord	2001–02	1,000
2003 First Ministers' Accord on Health Care Renewal	Cash supplement to Canada Health and Social Transfer	2005–06	2,500
2003 First Ministers' Accord on Health Care Renewal	Diagnostic/Medical Equipment Fund	2005–06	1,500
2003 First Ministers' Accord on Health Care Renewal	Supplement to Canada Health and Social Transfer (for health)	2005–06	2,000
Budget 2004	2004 Public Health and Immunization Fund	2006–07	400
10-Year Plan to Strengthen Health Care	2004 Wait Times Reduction Trust	2008–09	4,250
Budget 2005	Early Learning and Child Care Trust	2005–06	700
Budget 2005	Northern Strategy Trust	2007–08	120
Budget 2006	Post-Secondary Education Infrastructure Trust	2007–08	1,000
Budget 2006	Public Transit Capital Trust	2008–09	900
Budget 2006	Affordable Housing Trust	2008–09	800
Budget 2006	Northern Housing Trust	2008–09	300
Budget 2006	Off-Reserve Aboriginal Housing Trust	2008–09	300
Speech by the Prime Minister in February 2007	Clean Air and Climate Change Trust Fund	2009–10	1,519
Budget 2007	Patient Wait Times Guarantee Trust	2009–10	612
Budget 2007	HPV Immunization Trust	2009–10	300
Budget 2007	Transition Trust (for labour market training agreements and post-secondary education; in Ontario, Manitoba and Saskatchewan)	2007–08	614
Speech by the Prime Minister in January 2008	Community Development Trust	2010–11	1,000
Budget 2008	Police Officers Recruitment Fund	2012–13	400
Budget 2008	Saskatchewan Carbon Capture and Storage Demonstration Trust	2011–12	240
Budget 2008	Public Transit Capital Trust 2008	2009–10	500

Funds transferred 1999–2008 through trusts

Source: Department of Finance Canada

Exhibit 1.4 Five trusts comprised just over \$3 billion of the approximately \$50 billion transferred to the provinces and territories in 2006–07



Source: Department of Finance Canada

Exhibit 1.5 Chronology of actions taken to establish the Public Transit Capital Trust 2008

Actions taken before 31 March 2008

- **Federal announcement:** On 26 February 2008, the Budget Plan is tabled in Parliament. It commits the federal government to providing \$500 million to provinces and territories for investments in public transit. The Budget states that funding will be paid into the trust “for only those beneficiaries that have made public commitments before March 31, 2008, to undertake investments in public transit.”
- **Governments work together on where to target investments:** The federal government notifies provincial and territorial colleagues of the designated federal funding, and asks provinces to identify priority areas for investment prior to 31 March 2008 to signal their intention to participate. The federal government outlines the purpose of the funding and suggested areas for investments. The federal government also reinforces the importance of reporting to provincial and territorial citizens on the use of the funding. Federal, provincial, and territorial officials work together to confirm priority areas of investment.
- **Provincial and territorial announcements:** Provincial and territorial ministers formally reply to the federal government, indicating their intention to participate. They make public announcements in line with federal operating principles regarding their intended use of funding and how they intend to report publicly.
- **Budget legislation:** Bill C-50, *Budget Implementation Act 2008* tabled.
- **Trust arrangements finalized and trust accounts established with independent financial institution.**

Actions taken after 31 March 2008

- Budget bill moves through Parliament.
- Royal Assent given to the Budget bill, authorizing appropriations of public funds.
- Payment made to the trust on behalf of the provinces and territories.
- Provinces and territories able to draw funds from trust, spend the funds, and follow through on their public reporting commitments.

Source: Department of Finance Canada

1.39 After the funds have been transferred, these trusts have no additional legal conditions that obligate provinces and territories to spend the funds for the announced purposes.

1.40 Instead, once the provinces and territories have established their eligibility to draw funds from the trust, they become accountable in principle to their own citizens, not to the federal government, for how they use the funds. In this sense, trusts, as used by the federal government, are similar to the Equalization Program and the Territorial Formula Financing transfers, in that there are no mechanisms to withhold funds. Trusts are also similar to the Canada Health Transfer and the Canada Social Transfer, in that provinces and territories are not required to report on this spending to the federal government.

1.41 The following are three examples of trusts that the federal government recently established to transfer funds to the provinces and territories.

- **The Diagnostic/Medical Equipment Fund.** Announced as part of the 2003 First Ministers' Accord on Health Care Renewal, this fund was in support of specialized staff training and equipment to improve access to publicly funded diagnostic services. The federal government put \$1.5 billion into this trust, to be drawn down by the end of the 2005–06 fiscal year.
- **The Clean Air and Climate Change Trust Fund.** The funding for this \$1.5-billion trust was initially announced in February 2007, in a speech by the government. The trust was established to support provincial and territorial projects aimed at reducing greenhouse gas emissions and air pollutants. Environment Canada's use of a trust to accomplish this transfer limited its ability to report on how the transferred funds were spent and the results achieved (see Chapter 1, Managing Air Emissions, of the 2008 Report of the Commissioner of the Environment and Sustainable Development).
- **The Community Development Trust.** On 10 January 2008, the federal government announced \$1 billion for the Community Development Trust. This trust was designed to help provinces and territories assist communities and workers suffering economic hardship caused by the current volatility in global financial and commodities markets.

Significance of conditions

1.42 According to federal officials, the extent to which the federal government is accountable for funds it transfers to the provinces and territories depends on the extent to which conditions are attached to these transfers.

1.43 Once the federal government has reached agreement with the provinces and territories about the conditions attached to a transfer, it must demonstrate that it is monitoring provincial and territorial compliance with those conditions, and that it is taking action in cases of non-compliance. Our Office conducts performance audits to determine how well the federal government has carried out this obligation. The 2008 Report of the Commissioner of the Environment and Sustainable Development includes an example of this type of audit. See Chapter 3, Managing Environmental Programming—Agriculture and Agri-Food Canada.

1.44 As noted earlier, if no conditions have been established, the provinces and territories have the flexibility to spend the funds according to their own priorities. Because there are no conditions, our Office does not audit the non-financial elements of these transfers. In these circumstances, the federal government remains accountable to Parliament for choosing an unconditional transfer as the best available policy option. Accountability for results rests with provincial and territorial governments, and to their citizens, not to the federal government.

1.45 For all transfers, the federal government is responsible for ensuring that it sends the correct amount of funds to the provinces and territories. The role of the Office of the Auditor General, as Parliament's auditor, is to carry out financial audits of the Public Accounts of Canada. These audits determine if the government has recorded the amounts paid in accordance with Public Sector Accounting Board standards and with the stated accounting policies of the federal government.

Imposing conditions is a policy decision

1.46 Government officials whom we interviewed cited a number of reasons for choosing transfer mechanisms with limited or no conditions. In a mature federation, provincial and territorial governments have flexibility in matters involving their own jurisdictions, and report directly to their own legislatures and citizens rather than to the federal government. As well, in many areas, provinces and territories are best positioned to determine program priorities and implement programs in response to them. Another reason given by the officials was that the federal government can

achieve its objectives in ways other than by imposing conditions on transfers. For example, shared understanding and expectations may have been established based on a long history of recurring negotiations between the federal government and the provinces.

1.47 According to government officials whom we interviewed, the federal government may, depending on the circumstances, opt for a conditional transfer in order to

- ensure that recipients use the funds for specific purposes,
- encourage uniformity of services across the provinces and territories, and
- receive information on results achieved.

1.48 As auditors, we recognize that decisions on whether and to what extent conditions are attached to transfers are policy decisions that often involve sensitive negotiations among federal, provincial, and territorial governments. We do not question these decisions.

Conclusion

1.49 The federal government uses three main mechanisms to transfer funds to the provinces and territories. The first and largest mechanism includes four major transfers:

- the Canada Health Transfer,
- the Canada Social Transfer,
- the Equalization Program transfer, and
- Territorial Formula Financing.

These four transfers (of just over \$42 billion in the 2006–07 fiscal year) recur annually by law. They are managed by Finance Canada. The second mechanism involves the transfer of funds (just over \$5 billion in the 2006–07 fiscal year) by individual federal departments and agencies to support specific program areas. With the third mechanism, the federal government transfers funds (just over \$3 billion in the 2006–07 fiscal year) to the provinces and territories using trusts.

1.50 According to the federal government, the extent of federal accountability for how the provinces and territories spend transferred funds depends on the nature and extent of conditions attached to the transfers. In all cases, the government is accountable for its decision to use transfers with or without conditions as the best policy choice available in the circumstances.

1.51 Some transfers involve conditions that, for example, oblige recipients to provide the federal government with information on how they have spent the transferred funds and to what effect. The federal government must demonstrate that it is monitoring provincial and territorial compliance with these conditions and that it is taking action in cases of non-compliance. Where transfers have limited or no conditions, the provinces and territories have the flexibility to spend the funds according to their own priorities, with no legal obligation to account to the federal government for the spending.

1.52 A significant addition to the transfer mechanisms used by the federal government was the introduction of trusts in 1999. Since then, 23 trusts have been established to transfer almost \$27 billion to the provinces and territories. In each case, the federal government has publicly announced (jointly with recipients for recent trusts) the intended purposes of this funding. Once the eligibility conditions for these trusts have been met, no additional legal conditions obligate provinces and territories to spend the funds for the purposes announced. Instead, once the provinces and territories have established their eligibility to draw funds from the trust, they become accountable in principle to their own citizens, not to the federal government, for how they use the funds. In this sense, these trusts are similar to the four major transfers.

1.53 Where transfers have conditions, how well the federal government monitors the conditions is subject to performance audits by our Office, and our audit reports are provided to Parliament. For all transfers audited, we ensure that the amount paid is properly recorded in accordance with Public Sector Accounting Board standards and the stated accounting policies of the federal government.

About the Study

Objectives

We conducted this study to inform parliamentarians about the federal government's transfers of funds to provinces and territories, and about the Office's mandate to audit them. This study describes the different transfer mechanisms and the extent of the conditions attached to these transfers.

Scope and approach

This study examined

- the three main mechanisms the federal government uses to transfer funds to the provinces and territories, and
- the conditions attached to these transfers.

We reviewed government documentation and literature on federal transfers, including Budget papers, standing committee reports, and other reports. We also reviewed a wide range of literature on Canadian public administration. Finally, we drew upon the knowledge and advice of senior officials across the federal government, including central agencies, as well as experts in the field of public administration.

We did not examine funding arrangements with First Nations, payments to foundations, payments to municipal governments, or transfer payments to individual Canadians.

Study work completed

Examination work for this study was substantially completed on 31 May 2008.

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Report of the Auditor General of Canada to the House of Commons—December 2008

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2008



DECEMBER

Report of the
**Auditor General
of Canada**
to the House of Commons

Chapter 2
Governance of Small Federal Entities



Office of the Auditor General of Canada



2008



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Chapter 2
Governance of Small Federal Entities



Office of the Auditor General of Canada

The December 2008 Report of the Auditor General of Canada comprises Matters of Special Importance—2008, Main Points—Chapters 1 to 8, Appendices, and eight chapters. The main table of contents for the Report is found at the end of this publication.

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Chapter

2

Governance of Small Federal Entities

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Governance of Small Federal Entities

Main Points

What we examined

The federal government includes a variety of organizations, from large departments and Crown corporations to small agencies, boards, and commissions that carry out a wide range of activities, from environmental assessment to transportation safety. While the government defines small entities in a number of ways, for this audit, we considered small entities to be federal organizations with fewer than 500 employees or annual approved expenditures of less than \$300 million.

We examined specific elements of the federal government's regime of governance for small entities—the arrangements by which central agencies of government oversee the management of these entities. We carried out audit work in three central agencies (the Privy Council Office, the Treasury Board of Canada Secretariat (TBS), and the Canada Public Service Agency); in three federal departments with a large number of small entities in their portfolios; and in six small entities including a range of types: quasi-judicial, regulatory, granting, and policy bodies. We did not examine the internal management or program delivery of individual small entities.

This was one in a series of audits of small entities reported by this Office; others have looked at management and control practices and at program delivery. A chapter in our 2009 Status Report will cover Governor in Council appointments to these organizations.

Why it's important

Despite their relatively small size, these organizations can have a significant impact on the health, safety, and quality of life of Canadians. As publicly funded bodies within the government, small entities need to ensure prudence, probity, and effective control over the spending of public funds. Some characteristics of small entities—notably appointment processes, independence, and limited capacity—make it more challenging for them than for much larger federal organizations to respond to the management, control, and reporting requirements of the government's central agencies. Good governance requires effective oversight of the organizations that the federal government controls.

What we found

- In the small entities we examined, some key elements of the governance regime are not working well. For example, there is a lack of practical guidance to departments and agencies on specifically how and in what circumstances portfolio coordination should be practised (a portfolio is a grouping of government entities under the responsibility of a minister). From the perspective of the small entities we audited, this has resulted in an ad hoc approach that depends largely on individuals—communication and interaction with the portfolio department has been inadequate. In addition, the TBS Management Accountability Framework (MAF) is intended as a tool for monitoring management effectiveness in departments and agencies, but better information is needed for TBS to adequately assess financial management and control in small entities. The recent creation of a central internal audit function for small entities is a positive step, potentially allowing for better monitoring by TBS.
- Central agency and statutory reporting requirements place a significant burden on the limited capacity of small entities. The small entities we audited noted the high number of reports required (over 100 each year), their complexity and labour-intensive nature, and doubts about the value added by many of the reports. Five years after the central agencies acknowledge their role with respect to the reporting burden, the actions they have taken have not substantively reduced it. At the time of our audit, the central agencies had initiated action plans and had just created a committee to address the reporting burden across government.
- Given their smaller size, many small entities lack the capacity to build, sustain, and improve internal services such as finance, human resources management, and information technology. Sharing services is a way to address these challenges. Since 2001, various TBS studies have recognized the problems faced by small entities, and the government committed itself to improvement through shared services. Yet little has been done. The Secretariat's proposed initiative for corporate administrative shared services (CASS) in government does not take into account the capacity of small entities and the business risks they face, nor does it include them in CASS over the next three to five years. Several small entities have taken the initiative to share services but, unless central agencies develop a governance framework, the parties could be facing serious risks. Further, the potential for learning and improvement will be limited.

The central agencies have responded. The Treasury Board of Canada Secretariat, the Privy Council Office, and the Canada Public Service Agency agree with all of our recommendations. Their detailed responses follow each recommendation throughout the chapter.

Introduction

What are small entities?

2.1 Federal legislation identifies a number of categories of organization: ministerial departments, statutory agencies, departmental corporations, and Crown corporations. Most departments are large and have a number of organizational components. According to the constituent legislation, a minister has direct management and control over these organizational components. The organizations commonly referred to as small entities are statutory agencies and departmental corporations, over which ministers have varying degrees of control. Some small entities are separate employers (the Treasury Board is not the employer). Others are agents of Parliament, and ministers are not accountable for these small entities.

2.2 Some small entities are quasi-judicial tribunals that require independence from ministers in decision making because the federal government can be an interested party in the matters being decided.

2.3 The federal government defines entities as small based on how many employees (full-time equivalents or FTEs) they have, or based on their annual expenditures. The resulting population of small entities is diverse and includes those that carry out administrative, research, supervisory, advisory, investigatory, regulatory, and quasi-judicial functions. The government has not established categories for the governance of small entities.

2.4 We identified 51 entities that provide a reasonably complete picture of small federal entities as we have defined them for the purposes of this chapter. We defined small entities as those with fewer than 500 employees (FTEs) or with an annual approved expenditure, or **reference level**, of less than \$300 million. We did not include ministerial departments, Crown corporations, or entities that are agents of Parliament. Each of these organizations has governance arrangements distinct from those of the small entities included in the audit. Exhibit 2.1 shows the range of FTEs for the 51 small entities. Exhibit 2.2 shows the total expenditures for these entities.

2.5 The ministerial portfolios of the small entities selected for audit are shown in Exhibit 2.3.

2.6 Some characteristics of small entities, notably appointment processes, independence, and limited capacity, present challenges in achieving good governance. Despite their relatively small size, these

Reference level—The amount of funding that Treasury Board has approved for departments or agencies to carry out policies and programs for each year of the planning period.

organizations can have a significant impact on the health, safety, and quality of life of Canadians. As publicly funded bodies within the government, small entities need to ensure prudence, probity, and effective control over the spending of public funds.

Exhibit 2.1 Range of full-time equivalents in selected small entities

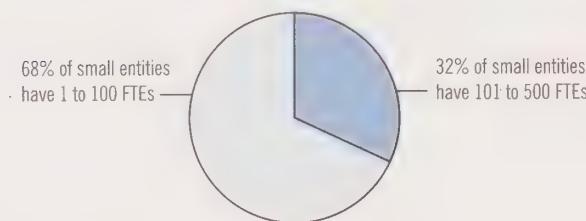


Exhibit 2.2 Most of the selected small entities have a total expenditure of under \$10 million

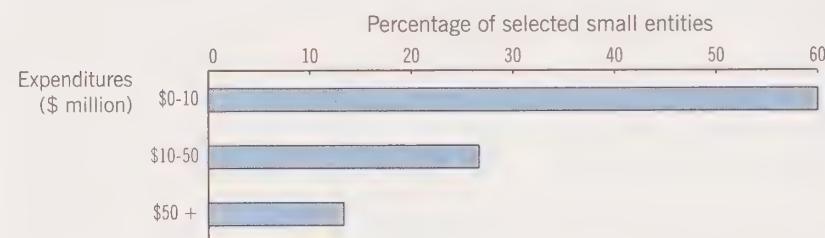


Exhibit 2.3 Ministerial portfolios of selected small entities

Departments	Number of entities
Department of Canadian Heritage and the Office of the Co-ordinator, Status of Women Canada	8
Department of Industry	4
Department of Justice	4
Department of Finance	4
Department of Health	4
Department of Public Safety and Emergency Preparedness	4
Department of National Defence	3
Department of Transport and the Office of Infrastructure Canada	3
Department of Human Resources and Social Development	3
Other departments (10)	14
Total	51

Risks to governance

2.7 In order to ensure good governance, the federal government requires effective oversight of the organizations it controls. In some previous audits of small federal entities, we found significant risks to governance. These risks prompted us to undertake this audit in order to further examine the adequacy of the oversight of small entities. Our past audits have also examined management and control practices, and program delivery in selected small entities.

2.8 The first risk area noted in previous audits was that the practices and procedures for the appointment, orientation, and performance management of top officials did not prevent or control the instances of serious abuse and wrongdoing that we found. The second risk area was the failure to adhere to the legislative and policy framework established for all government entities by the government and Parliament. Lastly, we found that accountability was at risk, due to a lack of clarity and consistency in relationships among heads of entities, portfolio departments, and central agencies.

2.9 In its Fifth Report to the House of Commons, in February 2008, the Standing Committee on Public Accounts concluded that central agency oversight and guidance for small entities were not working. The Committee expressed support for this audit of the governance of small entities.

Federal arrangements for governance

2.10 In the private sector, governance involves the relationships among the management of a corporation, its board of directors, its stakeholders, and its shareholders. In our 2005 audit of the governance of Crown corporations, we viewed governance as a process and structure for overseeing the direction and management of a corporation so that it carries out its mandate and objectives effectively. The board of directors plays a key role in the corporate governance of Crown corporations.

2.11 With small federal entities, governance does not involve a board of directors or other governing body. Legislative provisions vary widely. Small entities that are tribunals or regulatory agencies usually have a body composed of Governor in Council appointees, whose function is adjudicative. Departmental corporations have collegial bodies, such as councils, whose function is mainly advisory. The council may operate in some respects like a board of directors, for example, in discussing strategic plans and budgets. However, final responsibility and accountability rests with the head of the entity.

2.12 The issues facing small entities can be addressed through federal arrangements for governance, which we refer to as the governance regime. The governance regime can be described in terms of what needs to be done and the functions that responsible parties carry out for the purposes of governance. Exhibit 2.4 presents selected elements of the governance regime.

Exhibit 2.4 Selected elements of the governance regime

Element	Description
Creation	Deciding the procedure for creating the entity, including specific legislation, mandate, organizational form, responsibilities, powers, and duties
Policy direction	Applying the legislative framework for Cabinet/ministerial direction to particular circumstances
Transparency	Ensuring adequate provision for public access to information and for communication of key information to the public
Key appointments	Appointing top public office holders, monitoring their performance, compensating them appropriately, and overseeing succession planning
Oversight	Setting government-wide policies and standards, monitoring, and reporting on overall performance within government, including financial management and human resources management
Funding	Determining annual and multi-year funding, for ongoing and new expenditures, including review of performance, and government-wide initiatives to reduce spending
Leadership	Leading by example, from the centre, in advancing a government-wide management agenda
Enabling	Helping entities, from the centre, with management and performance improvement government-wide
Coordination	Procedures to ensure coherence and consistency of policy and management within portfolios, among types of entities, and across government
Reporting requirements	Statutory and central agency requirements for entities to provide information
Review, elimination	Periodic examination of the success of the entity in achieving its mandate and overall performance, reconsidering the need for the entity, and procedures for elimination of the entity
Holding to account	Procedures for the use of information about entity performance, including audit, evaluation, and review, to hold the responsible officials to account
Regime improvement	Monitoring effectiveness of governance policies and practices and adjusting as necessary

2.13 The governance regime operates in the context of a legal and institutional framework, including the legislation governing each government organization, generic government-wide legislation, central agency policy instruments, and institutional roles and responsibilities.

2.14 The central agencies we examined have varied roles. The Treasury Board of Canada Secretariat (TBS) has identified oversight, enabling, and leadership as its key roles. The Privy Council Office supports the Prime Minister in creating government organizations, in key appointments, and in policy direction and coordination. However, the Privy Council Office informed us that it is not involved in oversight. The Canada Public Service Agency's role includes fostering people management and leadership, and modernizing the public service.

2.15 Small entities have formed the Community of Federal Agencies, composed of a series of networks:

- the Group of Heads of Federal Agencies,
- the Small Agencies Administrators' Network,
- the Small Agencies Finance Action Group,
- the Personnel Advisory Group, and
- the Heads of Information Technology.

These networks carry out several functions, including an exchange of views and common concerns. They also serve as a collective voice, representing shared interests in discussions with central agencies and other branches of the federal public service.

Focus of the audit

2.16 We selected several elements of the governance regime for small federal entities for examination in this audit and in another audit, which we plan to report in 2009. In the present audit, we focused on portfolio coordination, the Management Accountability Framework (MAF or the Framework), and internal audit as mechanisms used by central agencies for oversight and coordination. We examined the role of central agencies in relation to the reporting requirements for small entities. We also examined the enabling and leadership role of central agencies in relation to shared administrative services. We did not examine the internal management or program delivery of individual small entities. In the 2009 audit, we will examine the process for appointments by the Governor in Council to small entities, Crown corporations, and the Immigration and Refugee Board of Canada.

2.17 We examined the governance regime from the centre, focusing on three central agencies: the Privy Council Office, the Treasury Board of Canada Secretariat, and the Canada Public Service Agency. We also considered the activities of the networks that comprise the Community of Federal Agencies, and their interactions with these central agencies.

2.18 In addition, to examine how the governance regime functioned in practice, we selected three portfolio departments and two small entities within each portfolio:

- Canadian Heritage—the Canadian Radio-television and Telecommunications Commission (CRTC), and Status of Women Canada;
- Industry Canada—the Copyright Board, and the Social Sciences and Humanities Research Council (SSHRC); and
- Justice Canada—the Canadian Human Rights Commission (CHRC), and the Canadian Human Rights Tribunal.

The selected departments have a large number of small entities in their portfolios. The selected six small entities reflect the distribution of the types and sizes of entity across government.

2.19 In order to broaden our perspective beyond the 6 small entities selected for audit, we also sent a questionnaire to the heads of all of the 51 entities that we had identified as being small entities. We asked their views on a number of the issues related to the governance regime.

2.20 More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendations

Oversight and coordination

2.21 An important part of the machinery of government is ensuring that a good governance regime is in place. The Privy Council Office (PCO) and the Treasury Board of Canada Secretariat, among others, provide general guidance and (in the case of the Secretariat) oversight to departments and agencies. PCO plays an important role in the Governor in Council appointment process for key positions, including heads of agencies. PCO is also involved in aspects of the appointment process, such as determining remuneration, for members of boards and commissions.

2.22 Supervising and directing an entity's staff and work is the statutory responsibility of the head of the entity, who is appointed, often from outside the government, by the Governor in Council. The head of a small entity is largely responsible for governance arrangements within the entity, and functions as the entity's accounting officer. Within the framework of the appropriate minister's responsibility, the head of the entity is accountable to the appropriate committees of Parliament for certain management responsibilities. These include the measures taken to ensure compliance with policies and procedures, and to maintain effective systems of internal control.

2.23 With respect to small entities, portfolio coordination is an important tool for governance. Coordination of portfolios involves the responsibility of ministers for achieving policy coordination among the entities in their portfolios. PCO has issued guidance that deals with portfolio coordination to ministers and their deputies. The Management Accountability Framework, which is considered in the context of the deputy ministers' performance assessments, includes a component on portfolio coordination.

2.24 A number of small entities have varying degrees of independence that depends on their governing statute. They must act in accordance with government policies and the public interest, and their actions must be consistent with their legal mandates. Government ministers, departments, and central agencies always have some overall responsibility for small entities, no matter what their degree of independence. This responsibility includes, for example, tabling reports in Parliament, and recommending appointments. Ministers answer to Parliament for the activities of all entities in their portfolio. As well, the federal government's financial and administrative policies and processes apply to all small entities, except in the case of separate employers' human resources management.

2.25 As the government's management board, the Treasury Board sets the specific management policies and standards for government entities and oversees their compliance with them. The functions performed by the Secretariat have a direct impact on governance, accountability, and the quality of public-sector management, as well as an indirect impact on the efficiency and effectiveness with which the government's programs and services are delivered.

2.26 The Secretariat uses a number of tools to carry out its oversight and coordination with small entities. Two key tools are its assessments of departments and entities against the Management Accountability Framework and the implementation of its new policy on internal audit.

There is a need to improve guidance for portfolio coordination

2.27 In their portfolios, ministers exercise varying degrees of control and responsibility for small entities, in accordance with enabling legislation. As noted above, portfolio coordination is the responsibility of the portfolio minister, and is intended to promote policy coordination and coherence in the activities and reporting of portfolio bodies. The deputy minister advises the minister on coordination mechanisms and practices.

2.28 *Accountable Government: A Guide for Ministers and Secretaries of State* (2007), issued by PCO, identifies portfolio coordination as an important principle in the roles and responsibilities of ministers in Canada's system of responsible parliamentary government. The Guide highlights portfolio coordination as a key component in achieving good governance.

2.29 In February 2007, the Clerk of the Privy Council initiated a practice of sending mandate letters to deputy ministers that include a reference to the importance of portfolio coordination. The Clerk asks deputies to "place renewed emphasis on ensuring effective portfolio coordination to support coherent policy development and good governance."

2.30 The Secretariat sets out guidance on the key characteristics of portfolio coordination through the annual Management Accountability Framework process. The Secretariat officials told us that they use the Framework to monitor portfolio coordination and to help departments and agencies improve structures and performance.

2.31 We expected central agencies to have effectively communicated their requirements for portfolio coordination to departments and small entities. We also expected the planned results to have been achieved.

2.32 Senior officials at PCO told us that their role in portfolio coordination was to develop high-level guidance for ministers and deputy ministers. They provide this guidance in a number of ways, including briefing ministers, training new deputy ministers, referring to the government's guidance documents, and responding to specific questions raised by ministers and deputies.

2.33 From the perspective of the audited small entities, portfolio coordination was largely carried out on an ad hoc basis, and was dependent on individuals. We also found that communication and

interaction with the portfolio department was inadequate. This included instances where

- small entities were not consulted on key matters,
- top-level meetings were infrequent, and
- meetings took place only when initiated by a small entity.

Heads of small entities who responded to questions in our questionnaire about the relationship with the portfolio department noted similar problems.

2.34 The deputy ministers we interviewed noted, among other matters, the need to deal carefully and at arm's length with independent, quasi-judicial entities, and the value of flexibility in the current arrangements for portfolio coordination.

2.35 Canadian Heritage, one of the three departments with portfolios that we examined, has established a portfolio affairs office. This office supports entities by providing analysis and strategic advice, coordinating Governor in Council appointments, and promoting best practices. At Industry Canada, the approach to portfolio coordination is in transition. Traditionally, the portfolio affairs office was the main vehicle for dealing with entities, but currently department units with relevant policy and programming expertise are assuming greater responsibilities. These new arrangements are intended to foster a more direct relationship among departments and the entities in their ministers' portfolios. Justice Canada has not established a portfolio affairs office because of the need to respect the independence of the entities, such as the Canadian Human Rights Commission.

2.36 The central agencies have recognized the need for improved guidance. In response to our recommendation in Chapter 11 of our November 2006 Report, Protection of Public Assets—Office of the Correctional Investigator, PCO informed us that it is updating the 1999 guide book for heads of agencies to include clearer guidance on portfolio coordination, among other matters. We understand that related changes are being made to the 2003 guidance for deputy ministers. PCO also informed us that they are conducting more systematic one-on-one briefing sessions with new GIC appointees, which includes portfolio coordination. The Secretariat indicated that it is developing a handbook on portfolio coordination, as well as guidance for the related indicator used in the Management Accountability Framework assessments.

2.37 Recommendation. The Privy Council Office and the Treasury Board of Canada Secretariat should improve their guidance on portfolio coordination, ensuring that expectations are clearly set out and communicated to portfolio departments and entities.

The central agencies' response. The Treasury Board of Canada Secretariat and the Privy Council Office (PCO) agree that additional guidance should be provided. The Secretariat expects to have a guide available for portfolio deputy ministers and their departments by 31 March 2009. This guide will provide practical information and suggestions for the successful coordination of the federal organizations that comprise ministerial portfolios. Rather than setting out expectations for conduct in specific cases, it is intended to support the Secretariat's annual assessment of portfolio coordination through the Management Accountability Framework. The Secretariat will also continue the practice of reviewing the portfolio coordination assessment criteria and guidance to departments before each round of the Management Accountability Framework.

PCO expects to have available expanded guidance on the principles of portfolio coordination in early 2009. This guidance is intended to assist deputies and heads of portfolio entities in understanding their responsibilities. The guidance will be principles-based rather than rules-based and, given the differing nature of portfolios, is not intended to set out specific expectations for the conduct of officials.

Additionally, PCO has reintroduced more systematic one-on-one briefing sessions with new deputy-level Governor in Council appointees, which cover portfolio coordination.

Better information is needed to assess financial management and control

2.38 The Treasury Board of Canada Secretariat indicated that the Management Accountability Framework (MAF or the Framework) is one of the tools used to monitor and assess the effectiveness of small entities' financial management and control, and to ensure compliance with the applicable Treasury Board policies and practices. As accounting officers, the heads of entities are responsible for all aspects of financial management in their organizations. Although we did not carry out a complete audit of the Framework, we expected that its process would allow for the assessment of financial management and control in small entities.

2.39 The Framework, introduced by the Secretariat in 2003, is an assessment of management performance prepared by the Treasury

Board of Canada Secretariat with input from departments and agencies. It consists of 10 “essential elements of sound management,” with a series of performance indicators and associated measures. Departments and agencies receive a rating for each indicator and for each of the associated measures. The Framework has become the Secretariat’s statement of its expectations of how deputy heads should manage, and the Framework assessments, which have been made public since the 2005 (third) round, serve as an instrument of oversight. In the 2006 (fourth) round of annual Framework assessments, there were 20 indicators and 84 measures. One of the indicators was the effectiveness of financial management and control. Six measures for this indicator were listed on the Secretariat’s website. However, the Secretariat informed us that only four of these measures were applicable and used to assess small entities in the 2006 round (Exhibit 2.5). The current 2007 (fifth) round of Framework assessments includes 21 areas of management (known in the previous round as indicators) and 72 lines of evidence (known in the previous round as measures). At the time of our audit, the 2007 round was still under way.

2.40 Large departments and agencies are assessed on an annual basis, and small agencies are assessed on a three-year cyclical basis. Departments and agencies are required to provide information, and the Secretariat relies on this information and on the information obtained from other sources, such as our Office’s reports, departmental internal audits, and audits carried out by the Office of the Comptroller General, to draft the MAF assessment. Once the Secretariat has completed the draft assessment, the departments and agencies provide it with feedback, and the final assessment is sent to deputy heads.

Exhibit 2.5 Financial management and control measures published and used in 2006

	Measures published (summary)	Measures used
1	Compliance with approved financial management legislation, policies, and directives	
2	Extent to which accounting and reporting is compliant with policies, directives, and standards	✓
3	Timeliness, accuracy, and frequency of departmental financial forecasts	
4	Progress in achieving readiness for audit of departmental financial statements	✓
5	Quality of internal financial management reporting	✓
6	Quality and effectiveness of delegation of financial authorities, including training to maintain knowledge and skills	

2.41 We reviewed the assessments of three of the small entities in our audit, the Canadian Human Rights Commission (CHRC), Canadian Human Rights Tribunal, and Social Sciences and Humanities Research Council (SSHRC). These entities were first included in the 2006 MAF round. In order to have a complete picture, we also reviewed the assessments of the other 11 small entities included in that round (as defined in our audit). The next MAF assessments of these small entities will be carried out in the 2009 round. In addition, we reviewed the Copyright Board assessment, which was first carried out in the 2007 MAF round. Micro-entities of 15 or fewer full-time employees, including the Copyright Board, followed a simplified approach that differed from the one taken in other organizations.

2.42 In our view, the 2006 Framework did not adequately assess financial management and control. In two of the three MAF assessments for small entities in our audit, and for 10 of the 11 other small entities, there was a review of past internal audits and audits performed by our Office. These reviews found that no audits addressed the entity's compliance with financial management legislation, policies, and directives. For these entities, this measure (measure 1 in Exhibit 2.5), which in our view is important for the assessment of financial management and control, was unrated and compliance was not assessed. However, two of the other three applicable financial management and control measures (measures 2 and 4) did assess policy compliance. In addition, in all 14 small entities, the measure for how effectively financial authorities were delegated could not be used because these entities were not subject to the recent **horizontal audit** conducted by the Office of the Comptroller General that was geared specifically to large departments. Finally, the Secretariat informed us that the measure for timeliness, accuracy, and frequency of departmental financial forecasts was not used because it was still under development at the time of the 2006 round. Going forward, it would be important to ensure that the Secretariat obtains the information it needs to do the assessments.

2.43 In addition, MAF measures for the 2006 round were not sufficiently detailed to assess financial management and control in small entities. We noted, however, that the 2007 MAF assessment of the Copyright Board, completed in early 2008, included detailed questions about financial controls. These questions were closely related to the issues raised in our previous audits of small entities.

2.44 In the 2007 round, in addition to the information that already exists, the Secretariat provided a mandatory survey or questions to departments and agencies relating to some areas of financial

Horizontal audit—An audit of federal initiatives in which two or more departments have established formal funding agreements to work toward shared outcomes.

management. Secretariat officials also informed us that they improved their review of financial management and control in that round. This included increasing the variety and type of information used to assess most of the measures, adding a measure to assess the strength of financial management capacity, and using a weighting system in their assessment process.

2.45 Recommendation. The Treasury Board of Canada Secretariat should ensure that the Management Accountability Framework assessment of financial management and control in small entities relies upon sufficient and appropriate information.

The Treasury Board of Canada Secretariat's response. Agreed. The Management Accountability Framework methodology used for Round IV in 2006 included an assessment of policy compliance by all organizations, including small agencies, in a number of areas of financial management and control. The methodology for financial management and control was significantly expanded in 2007 for Round V to include new measures and sub-measures and to collect additional information that the Office of the Auditor General did not audit.

The new internal audit policy is a positive development

2.46 The Treasury Board policy on internal audit took effect on 1 April 2006, and is being implemented over a three-year period. The policy distinguishes between large and small departments and agencies. According to this policy, small departments and agencies are those with fewer than 500 full-time employees and an annual reference level of less than \$300 million.

2.47 Deputy heads of large departments and agencies are responsible for establishing and carrying out an internal audit function. In small departments and agencies, the Office of the Comptroller General (within the Treasury Board of Canada Secretariat) carries out horizontal and other audits. Small entities with sufficient capacity also carry out their own internal audits. In November 2007, the Office of the Comptroller General developed a plan for horizontal internal audits. The first audit of small departments and agencies dealt with travel and hospitality. We noted that the planned audits were delayed in a number of cases, in part because of resourcing problems.

2.48 Another difference between large and small departments and agencies under the policy relates to audit committees. Large departments and agencies are required to establish an independent audit committee to advise the deputy head. For small departments and

agencies, the policy directive calls for a single audit committee to provide oversight and guidance on the internal audits carried out by the Office of the Comptroller General, and by the small departments and agencies. At the time of our audit, this audit committee had not yet been established.

2.49 In its Fifth Report to the House of Commons, in February 2008, the Public Accounts Committee viewed the new internal audit policy in a positive light, in that the Office of the Comptroller General was undertaking activities to monitor more closely the activities of small organizations. Although the policy is still in its implementation phase, we agree that it has potential as an oversight mechanism that serves the management of the small entity and central monitoring activities.

Reporting requirements

2.50 Reporting requirements are an essential part of the governance regime. The Treasury Board, with its portfolio organizations, the Treasury Board of Canada Secretariat, and the Canada Public Service Agency, all have a role in setting these requirements. All thereby support the prudent and effective management of federal organizations. Statutory reporting requirements include entity annual reports and compliance reporting in relation to, for example, official languages. Other reporting requirements may relate to financial management, procurement, or human resources management.

2.51 Although reporting requirements are generally the same for all government entities, the central agencies have acknowledged that the demands placed on the limited capacity of small entities constitute a reporting burden, and that they have a role in reducing it. Through the Community of Federal Agencies and its networks, small entities have expressed their concerns about the number of reports required and have been working with the central agencies on the problem.

2.52 The reporting burden comprises not only the number of reports, but also the time and effort required to produce them. We expected central agencies to have an adequately planned approach to deal with the reporting burden of small federal entities.

The reporting burden is well known and long-standing

2.53 The reporting burden is a long-standing issue. It has been pursued by the Small Agencies Administrators Network (SAAN or the Network) for many years, and was clearly defined in a series of studies commissioned in 2003, 2004, and 2007. These studies measured the reporting burden and proposed remedial measures. The 2003 study estimated that 107 reports had to be produced in any given fiscal period.

This and the second study, undertaken as part of the Treasury Board's modern comptrollership initiative, were intended to streamline reporting requirements, while ensuring that the information necessary for ensuring accountability continues to be reported. The studies called for technological solutions, notably Web-based reporting, and for continuing dialogue among central agencies and small entities in order to negotiate specific changes to reports. The second study also emphasized what small entities could do to reduce the reporting burden. The third study, commissioned by the Community of Federal Agencies in 2007, found no significant change in the number of reports required since the 2003 study.

2.54 The six small entities that we audited associated the reporting burden with several issues. Small entities generally have to meet the same reporting requirements as larger organizations, yet their risk levels are quite different. The "one size fits all" approach to reporting was regarded as inefficient. The detail, complexity, and frequency of the required reporting were onerous, and it was not always clear to them how that information improved accountability.

Actions taken to date have not substantively addressed the reporting burden

2.55 Five years after acknowledging that they have a role in reducing the reporting burden, the central agencies have not taken substantive action to reduce it. We examined the actions taken by the Treasury Board of Canada Secretariat and the Canada Public Service Agency in response to these studies and to develop an approach to deal with the reporting burden. These activities included the following:

- **Continuing dialogue among the central agencies and the Small Agencies Administrators Network.** SAAN has established a working group on the reporting burden. These parties have also convened human resources reporting roundtables, which have advocated a risk-based approach to reporting requirements.
- **Alternate reporting.** Small entities are required to undergo a Management Accountability Framework assessment once every three years, while the departments are required to undergo this assessment annually.
- **Online reporting.** The Canada Public Service Agency has developed a reporting portal to increase the "effectiveness of human resources policy monitoring and reporting across the Government of Canada." This initiative is ongoing.
- **Small Agencies Transition Support Team.** The Canada Public Service Agency funded this initiative to help small entities implement the *Public Service Modernization Act*. In this capacity,

the Transition Support Team has developed a reporting calendar that lists the reports required every year. The Team has also participated in interdepartmental roundtables and discussions on the reporting burden.

2.56 The Secretariat brought to our attention its policy renewal initiative, which it believes will lead to fewer policies and fewer reporting requirements. The initiative was launched in 2005 with the objective of streamlining policy instruments and clarifying the accountabilities and responsibilities of ministers and deputy heads. At that time, there were 180 policies. By the time the renewal initiative is completed, if expectations are met, this number should drop to 44. The initiative considers small entities in policy development, consultation, and implementation. Treasury Board officials informed us that this project will be ongoing into the 2008–09 fiscal year. The impact of this initiative on the reporting burden will not be known before it is completed.

2.57 In March 2008, the Secretariat and the Canada Public Service Agency formed an assistant deputy minister committee to address the reporting burden, chaired by an official from a non-departmental agency. We interviewed a number of committee members, who told us that their focus was on streamlining reporting requirements across the government, as well as in small entities. The key issue is the “web of rules,” the extent to which the number of rules and reports impedes the performance of public servants. However, at the time of our audit, the committee was just getting started and had not yet made specific plans or taken any concrete action.

2.58 In May 2008, senior central agency officials announced planned reductions in reporting requirements in the context of the web of rules. At the Canada Public Service Agency, these included different ways of reporting, as well as new means of data collection and measurement, all of which were seen as ways of reducing the reporting burden for human resources management.

2.59 By the end of our audit, the Secretariat and the Canada Public Service Agency had both developed government-wide action plans to address the reporting burden.

2.60 Recommendation. The Treasury Board of Canada Secretariat and the Canada Public Service Agency should incorporate into their plans measures that adequately address the reporting burden in small entities, including expected outcomes, timelines, and performance indicators.

The central agencies' response. Agreed. The Treasury Board of Canada Secretariat and Canada Public Service Agency are committed to reducing the reporting requirements for all departments and agencies, including small entities. The particular context and needs of small entities are being taken into consideration in the Web of Rules Action Plan and special measures and support will be considered as appropriate to mitigate the burden for these entities, recognizing that capacity alone cannot determine the level of reporting required of any entity. Consideration of risk, performance, and accountability as well as the need to maintain effective oversight are also important factors.

Reporting burden is a function of both the number of questions and the effort required to respond to them. Therefore, the Canada Public Service Agency and the Secretariat, together, have not only reduced the number of questions on the online human resources reporting portal by 85 percent, but they have also simplified the questions that remain. Similar success has also been achieved with respect to reducing “people management” reporting requirements under the Management Accountability Framework.

Work to streamline the Treasury Board Portfolio policy suite from 180 to 44 policies continues with a target of 25 percent reduction in reporting requirements in policies by 2010.

Shared services

2.61 As the Government’s management board, Treasury Board and its Secretariat have a lead role in developing administrative shared services. The Canada Public Service Agency also has a role in relation to services for human resources management.

2.62 The Treasury Board of Canada Secretariat has defined shared services as the streamlining of common corporate administrative systems and functions among departments and agencies. Shared services help to improve the quality, effectiveness, and efficiency of internal services through economies of scale and they provide access to specialized resources. Given their smaller size, many small entities are limited in their capacity to build, sustain, and improve the effectiveness of internal services, such as finance, human resources, information technology, and contracting services. Shared services are a means to address these challenges.

2.63 Business continuity is a major risk for small entities. In some cases, only one or two key individuals are responsible for providing administrative services. Without sufficient support, small entities often have difficulty ensuring sustainable administrative services.

2.64 Since 2001, the Secretariat has undertaken four studies of shared corporate administrative services. The problems faced by small entities, including lack of capacity and business continuity, were recognized by three studies:

- The 2001 Shared Services Feasibility Analysis recommended that the initial client group for shared services be a sample of medium and smaller departments and agencies, since they would not be able to justify the infrastructure necessary to have their own enterprise systems but would be able to enjoy significant benefits from shared services.
- The 2003 Common Infrastructure and Service Delivery Horizontal Review noted that small departments and agencies are particularly hard hit by tight operating budgets and limited capacity to upgrade and maintain their systems.
- The corporate administrative services review completed in early 2005 recognized that some small entities faced serious challenges in the delivery of a full range of administrative services.

2.65 In the 2005 Budget, the government made a commitment to improve service delivery by using a shared service approach for corporate and administrative services. In line with the Budget commitment, the Secretariat has advocated the following service improvement objectives for departments and agencies, which can be achieved in some measure through shared services:

- improve internal management, because good management is the foundation to delivering quality services to Canadians;
- improve decision making and accountability through consistent, high-quality information across government;
- improve the quality of internal services for managers and employees, to better support them in achieving their core program and policy goals; and
- achieve efficiencies that can be reallocated to other government priorities.

2.66 In light of the role of the Secretariat with respect to administrative shared services, we expected to see progress in addressing the issues identified. We also expected the Secretariat to monitor the progress of agreements on administrative shared services, in the event of significant variances, to take action to close the gap.

More attention is needed from central agencies

2.67 Following the 2005 Budget, the Secretariat launched the Corporate Administrative Shared Services (CASS) initiative. However, CASS does not take into account the capacity and business continuity risks that small entities face. Small entities have not been included in CASS for at least three to five years, since CASS is seeking investment funds. According to TBS, the expected savings to offset the initial investment is important and the Secretariat has not “evaluated any savings” with respect to small entities. Therefore, CASS has focused on investment return from five or more large departments, and not on the risks to small entities recognized in earlier studies. At the time of our audit, the planning and scoping phase of the CASS initiative was still under way.

2.68 A shared services framework or model could provide valuable guidance for small entities. The Secretariat had undertaken some preliminary business model analysis under the CASS initiative, and had developed a draft for discussion in May 2006.

2.69 Other jurisdictions have developed approaches to shared services based on a model or strategy. In the province of Quebec, a service bureau provides administrative services to large and small entities, both individually and through portfolios, through a number of service centres. Set up in 2005, the Centre de services partagés du Québec is intended to make administrative goods and services accessible by rationalizing and improving service delivery, while ensuring high-quality services. We noted that Ontario, British Columbia, and Alberta have also undertaken shared services initiatives.

2.70 There have been other limited efforts by federal central agencies. The Office of the Comptroller General has been working for a number of years on the problem of business continuity and shared services. A small-scale initiative led to approximately \$140,000 in financial support for the development of shared financial and human resources services. The Canada Public Service Agency provided \$50,000 in financial support to the Small Agencies Administrators Network to develop a conceptual model and a business case on shared services related to human resources management. We noted that in June 2008, the Secretariat established a service sector to provide leadership, support, and guidance in the area of internal, external, and interdepartmental delivery of services, including shared services.

Small entities have taken the initiative

2.71 Several small entities in our audit have entered into shared services agreement on their own initiative:

- The Common Administrative Services Directorate was created more than 10 years ago (in 1995) to provide administrative services to both the Social Sciences and Humanities Research Council (SSHRC) and the Natural Sciences and Engineering Research Council (NSERC). This shared administrative service arrangement was initiated as a result of the 1995 public service program review and was seen as a cost-saving opportunity. We were told that the Secretariat has shown little interest in the lessons learned from this initiative.
- The Canadian Human Rights Commission (CHRC) has provided shared services, in the areas of finance, human resources, information technology, and contracting services, to the Law Commission of Canada (from 1997 to 2006), Indian Specific Claims Commission (since 2005), and Public Service Labour Relations Board (since 2006). From 1 April 2008, CHRC has been providing finance and information technology services to the Office of the Public Sector Integrity Commissioner. CHRC entered into these arrangements to increase its capacity and expertise and to improve the quality of its internal services.
- The Copyright Board has, since its establishment in 1989, had shared services agreements with Industry Canada, its portfolio department, in the areas of finance, human resources, and information technology.
- The Canadian Radio-television and Telecommunications Commission (CRTC) has pay and compensation shared services agreements with Canadian Heritage, a shared services agreement with Indian and Northern Affairs Canada for the operation of a common human resources database, and a shared services agreement with Environment Canada for some elements of its mail service. All three of these departments are located in the same complex as the CRTC.

2.72 The Small Agencies Administrators Network (SAAN) has had a shared services working group since at least 2004, and shared services has been identified as one of its priorities. SAAN developed a shared services strategy in 2007, to address its members' capacity and business continuity problems.

There is a need to monitor shared services in small entities

2.73 We did not find any audits, evaluations, or Management Accountability Framework assessments, by the Secretariat or the Canada Public Service Agency, of administrative shared services in small entities. Unless central agencies foster and monitor progress, the potential for organizational learning and government-wide improvement will be limited.

2.74 The officials whom we interviewed raised concerns about an organization's authority to act as a shared service provider. It is not clear in what instances an organization has the authority to provide services to other government organizations. We have been informed by the Secretariat that it is working with a variety of stakeholders to resolve the mandate issue.

2.75 Without an adequate framework to govern shared services, there can be serious risks. In previous audits, we have found that officials did not properly fulfill their responsibilities because there was no common understanding of the roles and responsibilities for the shared financial and human resources services, and no agreed standards for providing the services. This resulted in the approval of questionable or inappropriate transactions.

2.76 Recommendation. The Treasury Board of Canada Secretariat should address the issues identified with respect to administrative shared services in small entities.

The Treasury Board of Canada Secretariat's response. Agreed. The Secretariat is currently developing a service strategy that will include options for delivery of services and will take into consideration administrative shared services arrangements. The Secretariat will address the issues related to small entities in the overall strategy.

Conclusion

2.77 Our examination of selected elements of the governance regime for small entities shows that there are significant issues that require attention. Mechanisms for oversight and coordination are not working well, with the possible exception of new developments in internal audit. Central agencies have not adequately communicated their expectations for portfolio coordination and the planned results were not being achieved. We found instances where small entities were not being consulted on key matters. Central agencies have not substantively addressed the need to develop a planned approach to

reducing the reporting burden and the need to facilitate the provision of shared administrative services. They have not adequately fostered or monitored progress with respect to shared services.

2.78 In all of these areas, good governance involves many players. The small entities have contributed significantly. For their part, the central agencies generally recognize the extent of the problems found. What is needed for the future is a commitment to action.

About the Audit

Objectives

The objectives of the audit were to determine the following:

- the adequacy of selected mechanisms for oversight and coordination of small entities, notably whether central agencies' expectations for portfolio coordination are adequately communicated and the planned results achieved;
- whether central agencies have an adequately planned approach to dealing with the reporting burden in small entities; and
- whether central agencies are adequately addressing the issues related to administrative shared services in small entities, monitoring the progress of agreements on shared services, and taking action to close the gap in the event of significant variances.

Scope and approach

For the purposes of this audit, we defined small federal entities as those with less than 500 full-time equivalents (FTEs), or an annual reference level of less than \$300 million.

We selected 12 entities for examination. We excluded ministerial departments, agents of Parliament, and Crown corporations, because these organizations have distinct governance regimes that differ from those of the agencies, boards, and commissions that account for most small federal entities.

The 12 entities audited included the following three central agencies: the Privy Council Office, the Treasury Board of Canada Secretariat, and the Canada Public Service Agency; three departments (see table below), each with a large number of small entities in their portfolios; and six small entities selected to reflect the distribution of types and sizes of entity across government. The six small entities comprised three quasi-judicial bodies, one regulatory body, one granting council, and one policy-oriented body.

Portfolio departments and small entities selected for audit

Portfolio department	Small entities	Category	Annual Reference Level 2006–07	
			Size (FTEs) 2006–07	(\$ millions)
Canadian Heritage	Canadian Radio-television and Telecommunications Commission	Regulatory	409	45.6
	Status of Women	Policy	93	25.176
Industry Canada	Copyright Board	Quasi-judicial	16	2.58
	Social Sciences and Humanities Research Council	Granting council	181	627.4
Justice Canada	Canadian Human Rights Commission	Quasi-judicial	180	20.965
	Canadian Human Rights Tribunal	Quasi-judicial	26	4.352

We sent a questionnaire to 51 heads of small entities in order to learn from them what challenges and concerns they had experienced with regard to the external governance regime within which the entities operate. The response rate was 35 out of 51, or approximately 69 percent.

We conducted in-person interviews using the same questionnaire.

We examined the practices and procedures for portfolio coordination in the central agencies and in the departments and small entities in our audit, including the guidance documents issued by central agencies. We considered the views of deputy ministers and heads of entities, through interviews and the responses from heads of entities to our questionnaire.

We also looked at governance developments in other jurisdictions, in Canadian provinces and abroad, in order to identify different practices and approaches relevant to the issues facing small federal entities.

Criteria

Listed below are the criteria that were used to conduct this audit and their sources.

Criteria	Sources
Oversight and Coordination	
We expected central agencies to have effectively communicated their requirements for portfolio coordination to departments and small entities. We also expected the planned results to have been achieved.	<ul style="list-style-type: none"> • Treasury Board of Canada Secretariat, Management Accountability Framework, Areas of Management (2007), Governance and Strategic Directions, Section 4.3 • Privy Council Office, Accountable Government: A Guide for Ministers and Secretaries of State (2007), Section II
We expected portfolio departments to have effective relationships with the small entities in the portfolio and that, where appropriate, they discuss and resolve with the heads of the small entities any matters that directly affect the entities.	<ul style="list-style-type: none"> • Treasury Board of Canada Secretariat, Management Accountability Framework, Areas of Management (2007), Governance and Strategic Directions, Section 4.3 • Privy Council Office, Accountable Government: A Guide for Ministers and Secretaries of State (2007), Section II • Specific legislation governing entities. The specific legislation establishing a small entity generally assigns statutory responsibilities to the head of the small entity that require coordination with the portfolio department.
We expected the Management Accountability Framework process to allow for the assessment of financial management and control in small entities.	<p>House of Commons Standing Committee on Public Accounts, Fifth Report—Report on the Protection of Public Assets—Office of the Correctional Investigator (February 2008), Recommendation 5</p>

Criteria	Sources
Reporting Requirements	
We expected central agencies, in setting or maintaining reporting requirements, to have an adequately planned approach that takes account of entity capacity.	<ul style="list-style-type: none"> • Treasury Board of Canada Secretariat, Policy on Reporting of Federal Institutions and Corporate Interests to Treasury Board Secretariat (1 April 2007) • Policy Renewal documents: "Treasury Board Policy Suite Renewal: Overview," Corporate Priorities and Planning Sector, Strategic Policy, Treasury Board of Canada Secretariat, Presentation to the Office of the Auditor General, 6 March 2008; and "Policy Reporting Requirements," Treasury Board of Canada Secretariat, Presentation to the Steering Committee for Policy Renewal (7 September 2006) • Group of Heads of Federal Agencies Record of Decisions, Discussion on the issue of the reporting burden (12 July 2007)
Shared Services	
We expected central agencies and portfolio departments to know whether objectives they have set for service improvement are being met through agreements for shared administrative services in selected small entities.	<ul style="list-style-type: none"> • Treasury Board of Canada Secretariat, Management in the Government of Canada: A Commitment to Continuous Improvement (2005), Section 3
We expected central agencies to take appropriate remedial action where service improvement objectives are not being met through agreements for shared administrative services in small entities, in order to improve services government-wide.	<ul style="list-style-type: none"> • Treasury Board of Canada Secretariat, Departmental Performance Report (2007); Management in the Government of Canada: A Commitment to Continuous Improvement (2005), Section 3

Audit work completed

Audit work for this chapter was substantially completed on 30 May 2008.

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 2. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
<p>Oversight and coordination</p> <p>2.37 The Privy Council Office and the Treasury Board of Canada Secretariat should improve their guidance on portfolio coordination, ensuring that expectations are clearly set out and communicated to portfolio departments and entities. (2.21–2.36)</p>	<p>The central agencies' response. The Treasury Board of Canada Secretariat and the Privy Council Office (PCO) agree that additional guidance should be provided. The Secretariat expects to have a guide available for portfolio deputy ministers and their departments by 31 March 2009. This guide will provide practical information and suggestions for the successful coordination of the federal organizations that comprise ministerial portfolios. Rather than setting out expectations for conduct in specific cases, it is intended to support the Secretariat's annual assessment of portfolio coordination through the Management Accountability Framework. The Secretariat will also continue the practice of reviewing the portfolio coordination assessment criteria and guidance to departments before each round of the Management Accountability Framework.</p> <p>PCO expects to have available expanded guidance on the principles of portfolio coordination in early 2009. This guidance is intended to assist deputies and heads of portfolio entities in understanding their responsibilities. The guidance will be principles-based rather than rules-based and, given the differing nature of portfolios, is not intended to set out specific expectations for the conduct of officials.</p> <p>Additionally, PCO has reintroduced more systematic one-on-one briefing sessions with new deputy-level Governor in Council appointees, which cover portfolio coordination.</p>
<p>2.45 The Treasury Board of Canada Secretariat should ensure that the Management Accountability Framework assessment of financial management and control in small entities relies upon sufficient and appropriate information. (2.38–2.44)</p>	<p>The Treasury Board of Canada Secretariat's response. Agreed. The Management Accountability Framework methodology used for Round IV in 2006 included an assessment of policy compliance by all organizations, including small agencies, in a number of areas of financial management and control. The methodology for financial management and control was significantly expanded in 2007 for Round V to include new measures and sub-measures and to collect additional information that the Office of the Auditor General did not audit.</p>

Recommendation	Response
<p>Reporting requirements</p> <p>2.60 The Treasury Board of Canada Secretariat and the Canada Public Service Agency should incorporate into their plans measures that adequately address the reporting burden in small entities, including expected outcomes, timelines, and performance indicators. (2.50–2.59)</p>	<p>The central agencies' response. Agreed. The Treasury Board of Canada Secretariat and Canada Public Service Agency are committed to reducing the reporting requirements for all departments and agencies, including small entities. The particular context and needs of small entities are being taken into consideration in the Web of Rules Action Plan and special measures and support will be considered as appropriate to mitigate the burden for these entities, recognizing that capacity alone cannot determine the level of reporting required of any entity. Consideration of risk, performance, and accountability as well as the need to maintain effective oversight are also important factors.</p>
	<p>Reporting burden is a function of both the number of questions and the effort required to respond to them. Therefore, the Canada Public Service Agency and the Secretariat, together, have not only reduced the number of questions on the online human resources reporting portal by 85 percent, but they have also simplified the questions that remain. Similar success has also been achieved with respect to reducing “people management” reporting requirements under the Management Accountability Framework.</p> <p>Work to streamline the Treasury Board Portfolio policy suite from 180 to 44 policies continues with a target of 25 percent reduction in reporting requirements in policies by 2010.</p>
<p>Shared services</p> <p>2.76 The Treasury Board of Canada Secretariat should address the issues identified with respect to administrative shared services in small entities. (2.61–2.75)</p>	<p>The Treasury Board of Canada Secretariat's response. Agreed. The Secretariat is currently developing a service strategy that will include options for delivery of services and will take into consideration administrative shared services arrangements. The Secretariat will address the issues related to small entities in the overall strategy.</p>

Report of the Auditor General of Canada to the House of Commons—December 2008

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2008



DECEMBER

Report of the
**Auditor General
of Canada**
to the House of Commons

Chapter 3

Contracting for Professional Services—
Public Works and Government Services Canada



Office of the Auditor General of Canada



2008



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Chapter 3
Contracting for Professional Services—
Public Works and Government Services Canada



Office of the Auditor General of Canada

The December 2008 Report of the Auditor General of Canada comprises Matters of Special Importance—2008, Main Points—Chapters 1 to 8, Appendices, and eight chapters. The main table of contents for the Report is found at the end of this publication.

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Chapter

3

Contracting for Professional Services
Public Works and Government Services
Canada

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Contracting for Professional Services

Public Works and Government Services Canada

Main Points

What we examined

To help deliver its departmental programs, Public Works and Government Services Canada (PWGSC) uses the professional services of consultants such as accountants, lawyers, architects, engineers, specialists in data processing, and other technical and professional experts.

We examined two random samples—one of publicly tendered contracts and one of sole source contracts—to determine whether PWGSC's contract award process followed the government's contracting regulations and policies. From the Department's expenditure database we also examined a random sample of financial transactions related to contracts to determine whether they were managed appropriately after they were awarded—that is, whether they were administered in compliance with the *Financial Administration Act*, the terms and conditions of the contracts, and the Department's financial and contracting policies. In addition, we assessed whether PWGSC had adequate management controls and monitoring practices in place.

Our conclusions relate only to the management practices and actions of public servants. The rules and regulations we refer to apply to public servants and not to contractors. We did not audit the records of the private sector contractors. Consequently, our conclusions cannot and do not pertain to any practices that contractors followed or to their performance.

Why it's important

PWGSC spends more than \$1 billion annually on contracts for services to support the delivery of its own programs. Therefore, it is essential that officials at PWGSC protect the interests of the Crown by adhering to key principles of contracting that promote competition, fairness, and transparency. This requires sound processes with appropriate segregation of duties, monitored to ensure that they are followed consistently.

What we found

- PWGSC awarded contracts in a fair, open, and transparent manner and fully complied with the applicable acts, regulations, and policies in 95 percent of the publicly tendered contracts and 96 percent of the sole source contracts that we audited.
- In the administration of contracts after they were awarded, there was an administrative deficiency or weakness of some kind in 30 of the 37 transactions examined—that is, the Department’s management controls were not properly applied. Although no single type of problem was pervasive, the number of problems indicates that the controls are not enforced consistently. For example, in some cases, contracts were amended after they were awarded, significantly changing their nature and value; in some cases, the Department did not enforce terms and conditions of contracts.
- In several cases, the same departmental official who undertook the procurement for services also certified that the services were received. This is not consistent with the Treasury Board’s Policy on Delegation of Authorities, which requires that each of the tasks be carried out by separate individuals.
- The Department had extensive, long-term contractual arrangements with some consultants that could create an employer-employee relationship and a risk of liability to the government.
- In three cases, there was evidence indicating that the contractor who was awarded the contract had been involved in developing the search criteria or had written the statement of work for the contract. In one case, PWGSC used the services of a consultant to assist in developing the request for proposal, while at the same time the consultant was subcontracted with the firm that bid on and was awarded the contract. Each case represented a conflict of interest and a violation of the government’s policy that contracting be fair, open, and transparent.

The Department has responded. PWGSC agrees with all the recommendations and is taking action to address the concerns raised in the chapter. It says it is pleased that the audit found it had followed the rules in its contract award process and complied with the government’s rules when awarding contracts for services. The Department’s responses follow each recommendation throughout the chapter.

Introduction

The importance of contracting for professional services

3.1 The federal government views contracting for services as an effective way to meet unexpected fluctuations in workload, to acquire special expertise not available in the public service, or to fill in for public servants during temporary absences. Contracting is an essential tool for federal departments and agencies in delivering their programs.

3.2 The government spends more than \$7 billion annually on professional and special services. Of this amount, Public Works and Government Services Canada (PWGSC) spent more than \$1 billion in the 2006–07 fiscal year to support the delivery of its programs. These professional services include those of accountants, lawyers, architects, engineers, translators, and doctors, nurses, and other medical personnel. The government also engages a variety of management, data processing, and other technical and professional experts.

3.3 The stated objective of the Treasury Board Contracting Policy is to ensure that the government acquires goods and services in a manner that enhances access, competition, and fairness, and results in the best value or, if appropriate, the optimal balance of overall benefits to the Crown and the Canadian people. Therefore, central to government contracting are the principles of fair and open access to contracting opportunities for businesses and the best value for the taxpayer.

3.4 PWGSC uses a variety of tools or approaches to meet its procurement requirements (Exhibit 3.1). These range from specific contracts that precisely define the deliverables to be provided to a specific client by a specific date, to various procurement frameworks for sometimes less specific or well-defined needs. Included in the latter are standing offers, supply arrangements, Professional Services (PS) Online contracts, and contracts based on task authorizations for specific work.

Focus of the audit

3.5 We examined whether PWGSC awarded publicly tendered and sole source contracts for professional services in compliance with the appropriate legislation, regulations, and policies. The process for awarding contracts consists of all activities from the initial identification of the requirement, the solicitation, and tendering (if required), up to and including the awarding of the contract.

Exhibit 3.1 PWGSC uses a variety of procurement tools or approaches

Publicly tendered contract: A publicly tendered contract is a competitive contract where the process used for the solicitation of bids enhances access, competition, and fairness, and assures that a reasonable and representative number of suppliers are given an opportunity to bid.

Sole source contract: A sole source contract is a non-competitive or directed contract, awarded to a preselected contractor in circumstances where the contracting authority has justifiably set aside the requirement to solicit bids under one or more of the exceptions to competitive solicitation in section 6 of the Government Contracts Regulations. A competitive bidding process is not followed.

Standing offer: A standing offer is not a contract. It is an offer from a potential supplier to provide goods and/or services at pre-arranged prices, under set terms and conditions, when and if required. No contract exists until the government issues an order or “call-up” against the standing offer, and there is no actual obligation on the part of the government to purchase until that time.

Supply arrangement: A supply arrangement is a non-binding agreement between PWGSC and suppliers to provide a range of goods or, more commonly, services on an “as required” basis. It includes a list of qualified suppliers identified as potential sources from which departments can obtain firm price quotations on specific requirements.

Task authorization: A task authorization (TA) is a structured administrative process enabling a client to authorize work by a contractor on an “as-and-when-requested” basis according to the terms and conditions of an existing contract. Contracts that provide for the use of TAs (TA contracts) are used in contracting situations where a definite need for a category of service exists, but the precise nature and timing of the need cannot be set out in advance. The use of TAs must be specifically provided for in the contract. When the client requires the services, a TA is issued to instruct the contractor to carry out the specified work.

Professional Service Online (PS Online): PS Online is an automated purchasing tool that enables suppliers across Canada to register in a database used by federal government departments and agencies to identify potential suppliers for the government’s requirements for professional services under the NAFTA threshold, which was \$84,000 at the time of the audit.

Sources: Treasury Board Contracting Policy, PWGSC Policy on Task Authorization Contracts, and PS Online Protocol

3.6 We further examined whether, once contracts had been awarded, they were managed and administered in compliance with appropriate legislation, regulations, policies, directives, and guidelines. Contract management and administration consist of the activities that occur once a contract is in place and include such things as commitment of funds, enforcement of the terms and conditions, information management and reporting, amendments to the contract, and payment for work done.

3.7 It should be noted that our conclusions about management practices and actions refer only to those of public servants. The rules and regulations we refer to apply to public servants; they do not apply to contractors. We did not audit the records of the private sector

contractors. Consequently, our conclusions cannot and do not pertain to any practices that contractors followed or to their performance.

3.8 More details on the audit objective, scope, approach, and criteria are in *About the Audit* at the end of this chapter.

Observations and Recommendations

Awarding of contracts

3.9 We examined the awarding process for a random sample of publicly tendered and sole source contracts from the 2005–06 and 2006–07 fiscal years. These two types of contracts, as defined in Exhibit 3.1, account for 87 percent of the dollar amounts of all contracts for services that Public Works and Government Services Canada (PWGSC) awarded for its own needs during those two years.

3.10 The **PWGSC Supply Manual** is based on one governing principle: integrity. Five sub-principles provide the framework for PWGSC contracting activities (Exhibit 3.2). It is important that the Department respect these principles, along with the policy requirements and regulations, in order to ensure the integrity of the contracting process with respect to fairness, open competition, and transparency in the expenditure of public funds.

3.11 We expected the award process (including defining the work to be done, soliciting bids, and awarding contracts) to be carried out in accordance with Government Contracts Regulations, the Treasury Board Contracting Policy, and the PWGSC Supply Manual.

The Department followed the rules in awarding publicly tendered contracts

3.12 We examined the award process of 43 publicly tendered contracts out of a total of 1,191 contracts over \$10,000 awarded during the 2005–06 and 2006–07 fiscal years. We expected that the Department would have followed the standard competitive process, such as issuing a request for proposal (RFP) and evaluating bids fairly. We determined that 41 of these contracts followed a competitive process that complied with applicable authorities, regulations, and policies.

3.13 For example, we reviewed one contract for specialized architectural services. The award process was complex, yet we found that the contract file was fully documented and included explanations of the issues and the reasoning behind decisions.

Exhibit 3.2 The PWGSC Supply Manual's five sub-principles provide the framework for contracting activities

Integrity	Client service
PWGSC supply activities will be open, fair, and honest.	PWGSC will make every reasonable effort to satisfy the operational requirements of its clients, while obtaining best value in each procurement process.
	National objectives
	PWGSC supply activities will advance established government national socio-economic policies, within the limits imposed by international trade obligations.
	Competition
	PWGSC procurement will be competitive, with specific exceptions.
	Equal treatment
	PWGSC will ensure that all potential suppliers of a particular requirement are subject to the same conditions.
	Accountability*
	PWGSC is accountable for the integrity of the complete procurement process, including all actions taken within the process. This also applies to actions originating from the client that do not comply with the Treasury Board or PWGSC policies, or applicable legislation.

*PWGSC deleted this sub-principle on 14 September 2007. All of the contracts in our sample were awarded prior to this date.

Source: PWGSC Supply Manual

3.14 Of the two exceptions we noted, one involved a contract awarded to a company under terms of an existing supply arrangement. When using a supply arrangement, PWGSC requires that the contract be awarded through a competitive tender among the firms on the list. However, in this instance, the Department did not follow a competitive process as it asked only one company to submit a proposal. In our opinion, it awarded the contract, valued at over \$200,000, on a sole source basis. The other exception involved a contract for which the Department did not publicly post the request for bids for the required number of days. No reason for the shortened tendering period was in the file.

3.15 In all the other cases that we looked at, PWGSC correctly notified bidders, managed the RFP process, carried out evaluations and financial analyses, and awarded contracts in compliance with the rules.

3.16 Based on the results of the sample we examined, we concluded that 95 percent of the contracts that PWGSC awarded using a public tendering process complied with the appropriate legislation, regulations, and policies. The tendering process was therefore conducted in a fair and open manner.

The Department followed the rules in awarding sole source contracts

3.17 Whenever possible, contractors are to be selected using a competitive process; however, there are some situations where a competitive process is not possible or does not represent the best value for the government. When a department chooses a non-competitive (sole source) procurement strategy, it must fully justify the decision to use an exception to competitive bidding. Government Contracts Regulations and the Treasury Board Contracting Policy allow a contract to be awarded without a competitive process under one of the following four, well-defined exceptions:

- The need is one of pressing emergency in which delay would be injurious to the public interest.
- The estimated expenditure does not exceed
 - \$25,000;
 - \$100,000, where the contract is for the acquisition of architectural, engineering, and other services required in the planning, design, preparation, or supervision of the construction, repair, renovation, or restoration of a work; or
 - \$100,000, where the contract is to be entered into by the member of the Queen's Privy Council for Canada responsible for the Canadian International Development Agency and is for the acquisition of architectural, engineering, or other services required in the planning, design, preparation, or supervision of an international development assistance program or project.
- The nature of the work is such that it would not be in the public interest to solicit bids.
- Only one person is capable of performing the work.

3.18 We examined the award process of 72 sole source contracts, out of a total of 491 contracts over \$10,000 awarded during the 2005–06 and 2006–07 fiscal years, to determine if they complied with relevant legislation, regulations, and policies. We expected the awarding of a non-competitive contract to fit one of the four exemptions and the justification to be documented in the file. We also expected that, as required by the Treasury Board Contracting Policy, the proposed bid would be evaluated for price and contractor capacity and assessed for the potential risk of an employee-employer relationship being created.

3.19 We determined that 69 of these sole source contracts complied with applicable authorities and had been awarded in a fair and transparent manner. In each of the 69 contracts, we were able to conclude that PWGSC had justified the use of a sole source contract, ensured that the contractor could do the work at a fair price, and ensured that an employee-employer relationship did not result when contracting the services of an individual. A good illustration is one contract, for which the contracting officer searched a database of contractors several times. As no contractor name came up with each search, the contracting officer used broader criteria in an attempt to locate a contractor. The contracting officer conducted five searches before asking the project officer to recommend a contractor. All of this information was properly documented in the file.

3.20 Three contracts were not compliant:

- Although Treasury Board Contracting Policy requires that documentation of contract files be maintained, the Department was unable to locate one identified file. Accordingly, we consider it non-compliant.
- In one case, we found that the Department did not use a procurement tool appropriately in awarding a contract for architectural and engineering services. PWGSC has designed a procurement tool called “SELECT,” which is a database of prequalified contractors who offer a variety of architectural and engineering services, to identify potential contractors and to ensure fair and equitable access to government work. The procurement tool identified a supplier. However, this supplier was disqualified because it was not available until September. We noted that the contract was awarded in mid-October to a supplier who had submitted a proposal to do the work the previous March. We also noted that this supplier was not identified through a SELECT search. In circumventing its established practice, the Department did not adhere to its principles of fair and equitable access to government work.
- Although required by the Treasury Board Contracting Policy, one file did not have a valid sole source justification. The Department stated that the contractor was the only one available to fulfill an emergency requirement to replace a staff vacancy. In our opinion, the requirement, which was general in nature, did not meet the definition of a pressing emergency.

3.21 Based on the results of the sample we examined, we found that 96 percent of the contracts that PWGSC awarded on a sole source basis complied with the appropriate legislation, regulations, and policies; consequently, we concluded that they were awarded in a fair, open, and transparent manner.

Administration of contracts

3.22 Sound contract management and administration practices are central to ensuring that departments comply with applicable legislation, regulations, and policies after contracts have been awarded. These practices are key to ensuring that contractors have fulfilled their contractual obligations, and that the government has received the services that it paid for.

3.23 We selected a random sample of 37 financial transactions from a total of 3,252 financial transactions over \$60,000, which accounted for 79 percent of the expenditure value of professional and special services from the Department's expenditure database for the 2005–06 and 2006–07 fiscal years. We audited these 37 transactions related to 28 contracts to assess whether PWGSC's administration of contracts after they were awarded met the requirements of the *Financial Administration Act*, Government Contracts Regulations, the Treasury Board Contracting Policy, and guidelines. We expected to see that

- segregation of duties was maintained;
- services rendered matched the original contract requirements, including amendments;
- monitoring mechanisms ensured payments did not exceed contract and financial authority;
- payments had been made in accordance with the *Financial Administration Act*;
- the terms and conditions of the contract were respected;
- the risk of creating an employee-employer relationship was being managed;
- the risk of creating a conflict of interest situation was avoided; and
- information was managed and reported in accordance with the Treasury Board of Canada Secretariat's guidance on proactive disclosure.

3.24 Of the 37 transactions, we found that 30 contained an administrative deficiency or weakness of some kind. While no single problem was noted as being pervasive, the frequency and range of errors signifies a need for greater consistency in the Department's

administration of contracts. The specific issues that we noted are described in the remainder of the chapter.

Segregation of duties was not always maintained

3.25 A key element in the design of a management control process is establishing appropriate segregation of duties. It is important because proper segregation of duties helps to ensure that no one individual can control the entire contracting process from identification of need, to selection of contractor, to approval of payment.

3.26 According to the Treasury Board Policy on Delegation of Authorities, “In assigning responsibility to individuals involved in the expenditure process, a deputy head must ensure that the following functions are kept separate:

- procurement;
- certification of the receipt of goods and the provision of services (section 34, *Financial Administration Act*);
- determination of entitlement, verification of accounts, and preparation of requisitions for payment of settlement; and
- certification of requisitions for payment or settlement pursuant to section 33 of the *Financial Administration Act*.”

3.27 We expected PWGSC to have proper segregation of duties in place to ensure appropriate financial and management controls for the spending of public money.

3.28 In most transactions that we reviewed, the proper segregation of duties was maintained. The project authority specified the requirement; the contract authority procured the services by issuing a contract or task authorization on behalf of the government; and in most cases, the project authority certified, according to section 34 of the *Financial Administration Act*, that the work had been done in accordance with the terms and conditions of the contract.

3.29 However, we found seven transactions where the same individual was responsible for the procurement of services and certifying the receipt of services. This arrangement is not consistent with the Treasury Board Policy on Delegation of Authorities.

3.30 In five of the seven transactions, we found the lack of segregation of duties related to task authorizations. In these cases, the project authority was able to both issue a task authorization to the supplier (procurement) to carry out the specified work and certify

receipt of services (certification of section 34). Combining procurement and certification functions under the responsibility of a single individual is not in keeping with the Treasury Board Policy on Delegation of Authorities.

Some contract amendments did not fairly reflect the original specifications

3.31 A basic principle of procurement is that the request for proposal (RFP) should reflect the nature of the work to be carried out. This principle ensures fairness and openness in the procurement process. As part of our audit of administrative practices, we reviewed the nature of contract amendments and the reasons for the changes.

3.32 The Treasury Board Contracting Policy recognizes that amending a contract is useful and in fact often necessary. It also cautions that departments should exercise care to avoid inadequate funding or planning, or improper administrative procedures that require amendments to the original contract. We expected to see that amendments to contracts were materially consistent with the original specifications, as stated in the RFP and during the bid evaluation process.

3.33 In our sample of 37 transactions related to 28 contracts, we found that 26 of those contracts had been amended. In most cases, the amendments we reviewed were within the scope of the original contract. The Department used them to implement option years or to extend the term of the contract.

3.34 However, we found four contracts that had been amended to the point where they differed significantly from the original contract and were no longer consistent with the original request for proposal. In these cases, major changes had been made to the types of skill sets or level of effort required. In one case, the RFP had a requirement for 23 different skill sets, defining the types of services to be provided. During the first 20 months, the contract was amended nine times, to include 18 new skill sets. Of the original 23 skill sets, 9 were never used. We also found that the average per diem rate increased by 35 percent. Since the contract was awarded in 2003, the value of the contract has increased from \$48 million to almost \$81 million. In another contract, the spending time frame was shortened from four years (with three option years) to 10 months. The final value of the contract was \$24 million. The shortened time frame required a different proportion of skill sets (at higher per diem rates) than specified in the RFP. We saw similar changes in the other two contracts.

3.35 The Treasury Board Contracting Policy objective is to ensure that goods and services are acquired in a manner that enhances access, competition, and fairness. It is important that any amendments to a contract respect these principles by not significantly changing the nature and extent of work to be performed under the contract as compared with the request for proposal. The statement of work set out in the RFP allows potential bidders to make a decision on whether or not to bid on a contract. In these four cases, the final contracts were significantly different from the original RFP, which had been the basis for soliciting and evaluating bids from suppliers. In our opinion, these amendments were not consistent with the Treasury Board Contracting Policy requirements for fair, open, and transparent tendering.

The Department has a financial system and procedures in place but did not always control spending against contract limits

3.36 A fundamental objective of sound financial management for government departments and agencies is to ensure that they adequately control their expenditures of public funds. This includes controls to ensure that the organization does not exceed its parliamentary appropriation, and to ensure that it does not make payments against a contract that exceed the value of the contract.

3.37 Key controls for managing the financial implications of contracting are primarily based on the *Financial Administration Act* (FAA) and associated Treasury Board policies. The FAA requires that fundamental controls for procuring and paying for goods and services be respected.

3.38 We expected that PWGSC would have adequate financial controls to meet the requirements of the FAA, and to ensure that payments did not exceed the value of the contract and respected its terms and conditions.

3.39 Section 32 (1) of the FAA states that departments shall not enter into a contract or other arrangement unless there is a sufficient unencumbered balance available to discharge the related financial obligation. In addition, section 32 (2) of the Act requires departments to establish procedures and maintain records for the control of financial commitments. According to the Treasury Board Policy on Commitment Control, a department should make commitments in its financial reporting system when it enters into a contract or places an order for goods or services.

3.40 We reviewed the financial control processes and their application in our sample of 37 transactions. We examined when the financial commitment occurred and discussed with Department officials the different approaches used to control the finances.

3.41 We found that PWGSC has procedures and a financial system in place to control financial commitments and that the Department has not exceeded its appropriation.

3.42 However, we noted that the Department was not consistent in recording commitments for task authorization contracts. In some cases, the commitments were recorded based on the contract value, and in other cases it was recorded based on the value of the individual task authorization once the work was requested. We found that when making commitments based on the value of the task authorization, the Department did not have a control in place to ensure that the dollar value of the contract was not exceeded.

3.43 We found one case where the expenditures exceeded the maximum value for the contract. The Department committed funds as it issued the individual task authorizations, without having a control in place to monitor commitments against the total value of the contract. The Department amended the contract in March 2007 by increasing its value by \$10 million. However, before approving this amendment, the Department had actually paid \$840,000 more than the value of the contract and had issued task authorizations that exceeded the authorized value of the contract by more than \$8 million.

3.44 The Department stated that its new financial and materiel management system, implemented in April 2008, should resolve this issue.

The Department did not always follow contracts' terms and conditions

3.45 The terms and conditions of a contract set out the services to be provided to the Crown and the basis upon which the Crown will pay for those services. They provide the legal basis for the expenditure of public funds related to a contract.

3.46 According to section 34 of the *Financial Administration Act*, no payment shall be made unless work has been performed and the price charged is in accordance with the contract, or where a payment is to be made before completion of the work, the payment is according to the contract.

3.47 We reviewed whether the Department made payments in accordance with the terms and conditions of contracts and properly approved payments under section 34 of the FAA.

3.48 We found that in 21 of the 37 transactions in our sample, the Department had not fully enforced terms and conditions of the contracts. Examples include the following:

- Performing additional work often requires pre-approval according to the terms and conditions of the contract. In 10 of the 37 transactions, we found that a request for payment for additional work was submitted after the work was completed, and this additional work had not been pre-authorized as required by the terms and conditions of the contract. Of the 10 cases, 7 related to payment of overtime where work was for more than 7.5 hours per day. There was no pre-authorization as required in the contract, yet in all cases the invoices were paid.
- In 3 other transactions, payments had been made for work that was outside the scope of the contract. Accordingly, there was no basis for payment as the contract had not been amended to include this additional work.
- In another 6 transactions, there was insufficient documentation to support invoices that were paid. Because most of these contracts are for professional services and paid at a per diem rate, timesheets are sufficient evidence to support payment. We found timesheets in most cases. However, the deliverables or a status report required to accompany the invoice were not in the file for each contract, and the Department was unable to provide us with them.

Some contracts create the risk of an employee-employer relationship

3.49 By using contractors to help in delivering a program, departments face the risk of inadvertently creating an employee-employer relationship between the government and the contractor. Such a relationship could create a significant liability for the government.

3.50 The Treasury Board Contracting Policy requires contracting authorities to ensure that an employee-employer relationship will not result when contracting for the services of individuals, in accordance with criteria established by the Canada Revenue Agency and pertinent court rulings (Exhibit 3.3).

3.51 An employee-employer relationship can be created through the wording of the contract. PWGSC has developed standardized wording for contracts to help minimize this risk. In addition, contracting officers review contract wording to ensure that clauses that could create such a relationship are not used.

3.52 A contract for services that is initially sound should not develop over time into a work situation that would constitute an employee-employer relationship, according to either the *Public Service Employment Act* or common law.

Exhibit 3.3 Canada Revenue Agency criteria for determining an employee-employer relationship

Indicators that the worker is an employee include the following:

- The payer directs and controls many elements of how the work is performed (such as what, who, where, when, and how).
- The payer controls the worker's absences, such as sick leave or vacation leave.
- The payer controls the worker with respect to the results of the work and the method used to do the work.
- The payer creates the work schedule and establishes the worker's rules of conduct.
- The worker must perform the work.
- The worker must remit activity reports to the payer.
- The worker's activities are reserved to a single payer (exclusivity of services).
- The payer can impose disciplinary actions on a worker.
- The worker receives training or direction from the payer on how to perform the work.
- The worker accepts to be integrated in the payer's business to have the latter benefit from his work.
- The parties have inserted a non-competition clause in their written contract.

Indicators that the worker is self-employed include the following:

- The worker is usually free to work when and for whom he or she chooses and may provide his or her services to different payers at the same time.
- The worker does not have to perform the services personally. He or she can hire another party to either complete the work or help complete the work.
- The worker can generally choose the time and the manner the work will be performed.
- The worker does not need to be at the payer's premises.
- The worker can accept or refuse work from the payer.
- The working relationship between the payer and the worker does not present a degree of continuity, loyalty, security, subordination, or integration, all of which are generally associated with an employee-employer relationship.

Source: Canada Revenue Agency Tax Guide RC4110

3.53 We expected that PWGSC would have taken the steps necessary to mitigate the risk of an employee-employer relationship developing during the period of a contract or over several contracts. We reviewed statements of work, timesheets, the relationship between the project authority and the contractor, and work conditions to determine whether there was a risk that an employee-employer relationship might have been created.

3.54 In our sample of 37 transactions, we noted that in 19 cases, there were indicators of an employee-employer relationship, as described in Exhibit 3.3. In particular, these indicators include: specified hours of work, supervisory relationships, requirements for reporting progress, listing in the government phone directory, and/or provision of office space.

3.55 In 16 cases, we saw consecutive contracts issued to retain the services of the same consultant, often using different procurement vehicles and stretching over several years. We also saw cases where consultants appeared to be working full-time since they billed for at least 220 days per year for successive years.

3.56 These factors could indicate a potential employee-employer relationship. If such a relationship is created, the Crown could be exposed to a significant liability for such things as pension or health benefits and employer contributions. However, it is ultimately only a court of law that can determine whether such a relationship exists.

3.57 PWGSC has developed practices to reduce the risk of creating an employee-employer relationship in awarding a contract; however, the Department does not formally monitor whether the same consultant had been retained through a series of consecutive contracts within branches.

3.58 PWGSC staff are aware of the risks. We noted that they encountered difficulties in trying to staff positions, especially in information technology. They stated that using consultants was one way they could get the people they needed to deliver their programs.

3.59 Department officials explained the particular challenges they face. The primary reason for using flexible contracting practices is the lack of long-term, stable funding. We noted that about one third of the Department's activities in providing information technology services are paid for through cost recovery from clients. This uncertain funding poses difficulties in staffing full-time positions because managers need to certify that a secure source of funds exists before they begin the staffing process.

3.60 Notwithstanding the explanations offered by the Department, the creation of an employee-employer relationship is contrary to the Treasury Board Contracting Policy and represents a significant risk for the Department. Its extensive and long-term contractual arrangements with consultants have an associated risk to the government.

3.61 Recommendation. Public Works and Government Services Canada should develop and implement a framework to ensure quality and compliance, on a consistent basis, with appropriate legislation, regulations, and policy. This would address such issues as enforcement of the terms and conditions, amendments to the contract, and payment for work done, as mentioned in this section of the report. This framework should include a monitoring program that incorporates lessons learned.

The Department's response. The observations noted in the chapter regarding inconsistencies in the administration and management of contracts after they are awarded are important. The Department accepts the recommendation and is taking corrective measures to address these observations. PWGSC is currently developing the Contract Management Control Framework, which will further strengthen its consistency in the administration of contracts in compliance with existing and appropriate legislation, regulations, and policies. The Framework is composed of key elements such as governance, controls, risk management, policies and procedures, tools and templates, management information systems, training and communications, monitoring, and reporting. These elements form the basis for several actions that together will help manage the risks related to managing consultants and administering contracts appropriately and consistently.

One of these key actions entails the development of the comprehensive Contract Management Guide that will provide employees with detailed guidance on the management of consultants and administration of contracts. The Framework will also include an ongoing program to monitor department-wide compliance with key contract requirements and controls, as well as mechanisms to help ensure that lessons learned are incorporated department-wide. Finally, the Framework will include an ongoing program to monitor the use of procurement tools, including an analytical review to determine areas of potential concern. The full implementation of all actions supporting the Framework by December 2008 will place the Department at the forefront of best practices in contract management.

Inappropriate use of a consultant can create a conflict of interest

3.62 In three cases, there was evidence that the incumbent contractors had participated in developing the search criteria or the statement of work for contracts that were subsequently awarded to them. This is a conflict of interest and does not comply with the policy that contracting be fair and open.

3.63 In one case, we found that the Department had permitted a conflict of interest as a result of the way that it used the services of a consultant in developing the request for proposal (RFP). We also noted that the consultant was paid amounts that were not in accordance with the terms of the contract.

3.64 In 1999, CGI Information Systems and Management Consultants Inc. was awarded a four-year contract for providing professional IT resources in support of PWGSC's Standard Payment System. Between May 2002 and December 2003, PWGSC paid \$193,000 to CGI for a consultant at a per diem rate of \$1,100. At the time, there was no category, rate, or classification in the contract for this type of consulting service. The maximum per diem rate in the contract was \$830. Despite the absence of the category or rate in the contract, PWGSC officials approved payment of invoices under section 34 of the *Financial Administration Act*, at a daily rate of \$1,100. In doing so, they did not comply with the Act.

3.65 We noted that the contract had not been amended to permit the payment at the higher rate. Officials initially told us that they expected there should have been a task authorization for this consultant. However, they were unable to locate many of the documents related to this contract. In our view, even if there was such a task authorization, it would not have been sufficient to authorize work or a rate of compensation that was not included in the scope of the contract.

3.66 The contract ended in December 2003. While the consultant was paid as a sub-contractor under the CGI contract from March to July 2003, he assisted PWGSC in developing the request for proposal for a new publicly tendered contract for the Standard Payment System. During this period, he also helped PWGSC respond to bidders' questions. The Department should have reasonably expected CGI to bid on this RFP. It did and subsequently won the contract. The contracting process is intended to be fair, open, and transparent. These objectives were clearly at risk when PWGSC permitted this situation to occur. In our opinion, such an arrangement constitutes a conflict of interest as defined in the Treasury Board Contracting Policy (Exhibit 3.4).

3.67 It should be noted that we found no evidence to indicate that the consultant or CGI acted inappropriately. Nor did we find evidence that the consultant worked on the bid evaluation process.

3.68 PWGSC obtained a signed non-disclosure and conflict of interest agreement with the consultant. Officials explained that the agreement showed that they were aware of the possible issue and took steps to mitigate it. In examining the agreement, we noted that it did not meet the requirements set out in the Treasury Board Contracting Policy; nor had it been reviewed by the Department's contracting authority or legal counsel.

3.69 The new CGI contract began in January 2004. The maximum daily rate in this contract was set at \$785. In that same month, PWGSC issued a task authorization under this contract for the services of an application architect at \$780 per day. Under this task authorization, CGI supplied the same consultant who had worked on the RFP.

3.70 In reviewing the details of this task authorization, we found that in February 2004, CGI submitted its invoice for \$1,100 per day for the technology architect. This category and rate were not in the contract and, therefore, there was no basis for payment; however, the invoice was paid. As soon as PWGSC became aware of the error,

Exhibit 3.4 The Treasury Board Contracting Policy clearly states what constitutes a conflict of interest in the administration of consulting and professional services contracts

A consultant or professional, by virtue of the kind of service provided, may be in a position to exercise a bias toward a third party that could put the latter in a favoured position for future business with the Crown. If the consultant, professional or principals have a financial interest in the business of this third party, the possibility of a conflict of interest should be considered. To avoid a conflict of interest, contracting authorities should, before signing a contract, require the selected consultant or professional to sign a declaration, either as part of the contract or separately, stating that no pecuniary interest in the business of any third party exists that would affect objectivity in carrying out the contract.

There are also situations where, in meeting its obligations to a contracting authority, a contractor may be in a position of potential conflict with competing or opposing interests of the contractor's other clients, either during the period of or subsequent to this particular contract. Contractors are expected to inform the contracting authority of these potentially competing services and interests, and explain why the situation would not represent a conflict of interest. Where appropriate, a contracting authority should require a contractor to sign a declaration, either as part of a contract or separately, that the contractor has no [conflict], and will not have, during the course of the contract and subsequent to it, any conflict arising from competing or opposing interests of other clients of the contractor. The possible wording for such a declaration is included in Appendix G.

Source: Treasury Board Contracting Policy

it took corrective action to recover the overpayment. It also amended the contract, creating the classification of a technology architect with a daily rate of \$1,100. The services of the consultant were then obtained through CGI when PWGSC issued a task authorization under this new classification and rate.

3.71 PWGSC has taken corrective action. When we brought this series of events to their attention, senior management issued a comprehensive direction to all staff in the branch concerned, explaining their roles and responsibilities. Instructions to staff included that consultants should not participate in developing any component of an RFP without the specific and written approval of the Assistant Deputy Minister. We noted that these instructions were directed only to this branch.

3.72 Recommendation. Public Works and Government Services Canada should

- take reasonable steps to determine whether any similar cases to the one described above have occurred and to ensure that appropriate action has been taken;
- investigate the circumstances surrounding this particular case in order to ensure that any lessons that can be learned are understood and acted upon; and
- monitor the implementation of the instructions to provide management with assurance that they are being complied with and apply these instructions throughout the Department.

The Department's response. PWGSC accepts this recommendation. As acknowledged by the Auditor General, the Department took immediate corrective action to address the issue as soon as the matter was brought to its attention in February 2008. Such actions included the issuance of two separate directives within the appropriate branch, reminding staff of their obligation to administer contracts in accordance with established contract requirements. Similar directives have been integrated in the Contract Management Control Framework to ensure implementation of best practices department-wide. In addition, the Department will take reasonable steps to determine if similar cases have occurred and, where appropriate, take corrective measures to address such cases.

Further, PWGSC has engaged a private firm to conduct an independent third-party review of the circumstances surrounding this particular case. The Department will ensure that appropriate action is

taken, and any lessons that can be learned are understood and acted upon immediately.

Finally, a detailed review of contracting activity within the appropriate branch is under way. This review will examine the extent to which contracts managed by the branch comply with regulatory requirements, as well as Treasury Board of Canada Secretariat/PWGSC policies and directives. It will also determine the extent to which contracting behaviours within the branch respect departmental best practices and the branch directive issued in February 2008. Corrective measures will be taken to address any weaknesses, and lessons learned will be incorporated into the Contract Management Control Framework.

There is a significant gap in the information reported to the public

3.73 The Treasury Board of Canada Secretariat's guidance document titled Proactive Disclosure of Contracts contain details on how and what departments are to publicly disclose for all contracts with a value of more than \$10,000. The guidelines note that it is important that all required information be presented accurately and completely in order to maintain the public's confidence.

3.74 As part of our audit, we examined whether PWGSC met the requirements for proactive disclosure. We determined that 28 of our sample of 37 transactions should have been reported on the proactive disclosure website, as required effective 1 April 2004. The other 9 transactions were awarded prior to the requirement for reporting proactive disclosure.

3.75 We found that PWGSC had disclosed only 13 of the 28 transactions (contracts or task authorizations). Of the 15 that were not disclosed, 9 were task authorizations.

3.76 Treasury Board of Canada Secretariat guidelines suggest that departments report task authorizations as they issue them. We found that there was inconsistent reporting of task authorization contracts. In some cases, the contract was reported, while in other cases, the task authorization was reported.

3.77 For example, in our sample of 37 transactions, we found 3 task authorizations related to one contract that were not reported on the proactive disclosure website. Furthermore, we found that only 8 of the 235 task authorizations pertaining to this same contract were reported. Overall, we determined that task authorizations valued at \$72.6 million were never disclosed for this contract.

3.78 The Secretariat's guidelines also state that departments are not required to report contract amendments. As the intent of the proactive disclosure process is to make information available to the public on all contract awards greater than \$10,000, the lack of a requirement to also report amendments presents a significant gap in the information provided on the final value of the contract. In many instances, the nature and extent of contract amendments can be significant. For example, in one contract, only the initial value of \$1.75 million was disclosed by PWGSC, not its final amended value of \$24 million.

3.79 Treasury Board of Canada Secretariat officials told us that the requirement to disclose both contracts and contract amendments valued over \$10,000 has been approved and is contained in its updated Contracting Policy, effective 1 September 2008. Secretariat officials also advised us that the guidance will be updated.

3.80 Further, in auditing our sample of contract awards, we found that almost 10 percent were incorrectly coded as either competitive or non-competitive. Incorrectly coding contracts affects departmental reporting on the number and value of sole source contracts. This information is provided to Parliament through the Treasury Board of Canada Secretariat on an annual basis.

3.81 Recommendation. Public Works and Government Services Canada should ensure that it reports all task authorizations as they are issued.

The Department's response. Public Works and Government Services Canada accepts this recommendation. The Department will seek clarification from the Treasury Board of Canada Secretariat on the Department's obligation as it relates to the reporting of task authorizations, and ensure that Department employees review, understand, and follow the guidance outlined in the Treasury Board of Canada Secretariat's guidance document titled Proactive Disclosure of Contracts. In the meantime, the Department has implemented a new financial management and materiel management system (SIGMA). This new system will allow the Department to ensure accuracy and completeness of task authorization reporting, as task authorizations will be captured in SIGMA at the commitment stage of the payment process.

3.82 Recommendation. The Treasury Board of Canada Secretariat should update its guidance document on the treatment of amendments to contracts.

The Secretariat's response. Agreed. Recent changes to the Treasury Board Contracting Policy, which came into effect 1 September 2008, now require the disclosure of contract amendments over \$10,000. The Secretariat plans to issue new guidance to departments regarding the proactive disclosure of contract amendments no later than January 2009.

Conclusion

3.83 We determined that Public Works and Government Services Canada complied with the government's rules when awarding contracts for services. This finding is significant because the Department spends more than \$1 billion annually on professional services to support the delivery of its programs.

3.84 However, the Department needs to improve the consistency with which it administers and manages contracts after they have been awarded. Although the examples we looked at did not indicate systemic weaknesses in the application of management controls, they did highlight the inconsistent application. We also found some gaps in the application of financial controls, segregation of duties, contract amendments, and adherence to contractual terms and conditions.

3.85 Although the Department is aware of the risk of creating an employee-employer relationship and has policies in place to mitigate that risk, we found that a number of contracts had indicators of a possible relationship.

3.86 We found a series of related transactions that involved placing a contractor in a conflict of interest and making payments to the same consultant at a rate well above the maximum rate specified in the contract. The Department has already begun to take steps to prevent a recurrence of this kind of situation.

3.87 We also found a significant gap in the information reported to the public on issuing task authorizations and amending contracts.

About the Audit

Objective

The objective of the audit was to determine if Public Works and Government Services Canada carries out its contracting activities for professional and special services in a manner that respects access, competition, and fairness, in compliance with authorities.

Scope and approach

We examined how Public Works and Government Services Canada contracts for services on its own behalf. To carry out this audit, we performed the following tasks:

- We conducted interviews with Public Works and Government Services Canada officials to better understand the contracting processes and related operations, and we reviewed relevant documents to understand the contract management framework, roles and responsibilities of the parties, and the risks, controls, and practices.
- We audited a random sample of 43 publicly tendered contracts awarded by PWGSC for professional and special services. These contracts were from a total of 1,191 contracts over \$10,000 from the contracting databases (AIS and AMMIS) for the 2005–06 and 2006–07 fiscal years. We audited these contracts to assess whether the award process adhered to applicable appropriate legislation, regulations, and government policy requirements. Based on our findings, we are 90 percent confident that the non-compliance rate in the population is no more than 12 percent.
- We audited a random sample of 72 sole source contracts awarded by PWGSC for professional and special services. These contracts were from a total of 491 contracts over \$10,000 from the contracting databases (AIS and AMMIS) for the 2005–06 and 2006–07 fiscal years. We audited these contracts to assess whether the award process adhered to applicable appropriate legislation, regulations, and government policy requirements. Based on our findings, we are 90 percent confident that the non-compliance rate in the population is no more than 9 percent.
- We selected a random sample of 37 financial transactions from a total of 3,252 financial transactions over \$60,000, which accounted for 79 percent of the expenditure value of professional and special services for the 2005–06 and 2006–07 fiscal years from the Department's expenditure database. We audited these 37 transactions, which were related to 28 contracts, to assess whether PWGSC's administration of contracts after they were awarded met the requirements of the *Financial Administration Act*, regulations, and the Treasury Board Contracting Policy. Based on our findings, we are 90 percent confident that the non-compliance rate in the population is no more than 89 percent.
- We also examined information databases and proactive disclosure reports from our sample of 37 financial transactions to assess the completeness and accuracy of the Department's information management and reporting.

The audit did not assess either the performance or the qualifications of the suppliers. No comments in the report should be construed as criticism of any supplier.

Criteria

Listed below are the criteria that were used to conduct this audit and their sources.

Criteria	Sources
We expected that PWGSC would be carrying out activities for awarding contracts (requirements, procurement, solicitation, and award) in accordance with the Treasury Board Contracting Policy and the Government Contracts Regulations.	<ul style="list-style-type: none"> • Government Contracts Regulations (2004) Section 3 • Treasury Board Contracting Policy (2006), Section 3 • Public Works and Government Services Canada, Supply Manual (2007), Chapter 1
We expected that PWGSC would be administering contracts properly in compliance with appropriate legislation, regulations, policies, directives, and guidelines.	<ul style="list-style-type: none"> • <i>Financial Administration Act</i> (2004), Schedule 1 • Treasury Board Contracting Policy (2006), Section 3 • Treasury Board of Canada Secretariat, Policy on Delegation of Authorities (1994) • Treasury Board of Canada Secretariat, Policy on Commitment Control (1996) • Treasury Board of Canada Secretariat, Proactive Disclosure of Contracts (2004) • Public Works and Government Services Canada, Supply Manual (2007), Chapter 1 • Public Works and Government Services Canada, Policy and Procedures on Commitment Control (2004) • Public Works and Government Services Canada, Policy on Task Authorization Contracts (2005) • Canada Revenue Agency, Employee or Self-Employed? (2006)

Audit work completed

Audit work for this chapter was substantially completed on 30 April 2008.

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 3. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
<p>Administration of contracts</p> <p>3.61 Public Works and Government Services Canada should develop and implement a framework to ensure quality and compliance, on a consistent basis, with appropriate legislation, regulations, and policy. This would address such issues as enforcement of the terms and conditions, amendments to the contract, and payment for work done, as mentioned in this section of the report. This framework should include a monitoring program that incorporates lessons learned. (3.22–3.60)</p>	<p>The observations noted in the chapter regarding inconsistencies in the administration and management of contracts after they are awarded are important. The Department accepts the recommendation and is taking corrective measures to address these observations. PWGSC is currently developing the Contract Management Control Framework, which will further strengthen its consistency in the administration of contracts in compliance with existing and appropriate legislation, regulations, and policies. The Framework is composed of key elements such as governance, controls, risk management, policies and procedures, tools and templates, management information systems, training and communications, monitoring, and reporting. These elements form the basis for several actions that together will help manage the risks related to managing consultants and administering contracts appropriately and consistently.</p> <p>One of these key actions entails the development of the comprehensive Contract Management Guide that will provide employees with detailed guidance on the management of consultants and administration of contracts. The Framework will also include an ongoing program to monitor department-wide compliance with key contract requirements and controls, as well as mechanisms to help ensure that lessons learned are incorporated department-wide. Finally, the Framework will include an ongoing program to monitor the use of procurement tools, including an analytical review to determine areas of potential concern. The full implementation of all actions supporting the Framework by December 2008 will place the Department at the forefront of best practices in contract management.</p>

Recommendation	Response
<p>3.72 Public Works and Government Services Canada should</p> <ul style="list-style-type: none"> • take reasonable steps to determine whether any similar cases to the one described above have occurred and to ensure appropriate action has been taken; • investigate the circumstances surrounding this particular case in order to ensure that any lessons that can be learned are understood and acted upon; and • monitor the implementation of the instructions to provide management with assurance that they are being complied with and apply these instructions throughout the Department. <p>(3.62–3.71)</p>	<p>PWGSC accepts this recommendation. As acknowledged by the Auditor General, the Department took immediate corrective action to address the issue as soon as the matter was brought to its attention in February 2008. Such actions included the issuance of two separate directives within the appropriate branch, reminding staff of their obligation to administer contracts in accordance with established contract requirements. Similar directives have been integrated in the Contract Management Control Framework to ensure implementation of best practices department-wide. In addition, the Department will take reasonable steps to determine if similar cases have occurred and, where appropriate, take corrective measures to address such cases.</p> <p>Further, PWGSC has engaged a private firm to conduct an independent third-party review of the circumstances surrounding this particular case. The Department will ensure that appropriate action is taken, and any lessons that can be learned are understood and acted upon immediately.</p> <p>Finally, a detailed review of contracting activity within the appropriate branch is under way. This review will examine the extent to which contracts managed by the branch comply with regulatory requirements, as well as Treasury Board of Canada Secretariat/PWGSC policies and directives. It will also determine the extent to which contracting behaviours within the branch respect departmental best practices and the branch directive issued in February 2008. Corrective measures will be taken to address any weaknesses, and lessons learned will be incorporated into the Contract Management Control Framework.</p>
<p>3.81 Public Works and Government Services Canada should ensure that it reports all task authorizations as they are issued. (3.73–3.80)</p>	<p>Public Works and Government Services Canada accepts this recommendation. The Department will seek clarification from the Treasury Board of Canada Secretariat on the Department's obligation as it relates to the reporting of task authorizations, and ensure that Department employees review, understand, and follow the guidance outlined in the Treasury Board of Canada Secretariat's guidance document titled Proactive Disclosure of Contracts. In the meantime, the Department has implemented a new financial management and materiel management system (SIGMA). This new system will allow the Department to ensure accuracy and completeness of task authorization reporting, as task authorizations will be captured in SIGMA at the commitment stage of the payment process.</p>

Recommendation	Response
<p>3.82 The Treasury Board of Canada Secretariat should update its guidance document on the treatment of amendments to contracts. (3.73–3.80)</p>	<p>The Secretariat's response. Agreed. Recent changes to the Treasury Board Contracting Policy, which came into effect 1 September 2008, now require the disclosure of contract amendments over \$10,000. The Secretariat plans to issue new guidance to departments regarding the proactive disclosure of contract amendments no later than January 2009.</p>

Report of the Auditor General of Canada to the House of Commons—December 2008

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Report of the
**Auditor General
of Canada**
to the House of Commons

Chapter 4
Managing Risks to Canada's Plant Resources—
Canadian Food Inspection Agency



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2008



Report of the
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of Canada**
to the House of Commons

DECEMBER

Chapter 4
Managing Risks to Canada's Plant Resources—
Canadian Food Inspection Agency



Office of the Auditor General of Canada

The December 2008 Report of the Auditor General of Canada comprises Matters of Special Importance—2008, Main Points—Chapters 1 to 8, Appendices, and eight chapters. The main table of contents for the Report is found at the end of this publication.

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Chapter

4

Managing Risks to Canada's Plant
Resources

Canadian Food Inspection Agency

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Managing Risks to Canada's Plant Resources

Canadian Food Inspection Agency

Main Points

What we examined

The mandate of the Canadian Food Inspection Agency (CFIA) is to safeguard Canada's food supply, protect animals and plants, and support trade and commerce. One of its responsibilities is to regulate imports of plants and plant products. This includes developing import policies and standards, issuing import permits, approving shipments for release, and carrying out import inspections. In the 2006–07 fiscal year, CFIA spent \$65.2 million protecting Canada's crops and forests.

We examined whether the Agency adequately manages the risk that invasive alien plants, seeds, plant pests, and plant diseases could enter or become established in Canada. We looked at how the Agency sets and administers standards, conducts pest surveys and plant health risk assessments, and verifies that imports of plants and plant products meet Canadian requirements. Our audit focused on work done by CFIA staff at headquarters in Ottawa, at the three Import Service Centres (Vancouver, Toronto, and Montreal), and at inspection offices across the country.

Why it's important

Canada's plant resources are critical to the well-being of all Canadians. Invasive alien plants and plant pests can threaten biodiversity and the economy. Experts have concluded that invasive species are the second most serious threat to biodiversity after habitat loss. In their new habitat, invasive alien plants and plant pests may become new predators, competitors, parasites, or diseases and thus threaten domestic species and Canada's plant and plant product production. In 2005, this production was valued at approximately \$100 billion.

There is a general consensus that it costs less to deal with invasive plants, pests, and diseases before they become established. In protecting Canada's plant resources, CFIA must manage the risks associated with changing environmental conditions, the growing globalization of trade, and the increasing diversity of plants and plant products being imported into Canada—currently estimated at around 84,000 shipments a year.

What we found

- The Agency supports its efforts with two key science-based activities—plant health risk assessments and pest surveys. The Agency has difficulty delivering timely assessments; there is a growing backlog of requests for risk assessments—42 at the time of our audit, more than can normally be completed in a year. The yearly pest survey plans of the Plant Health Surveillance Unit are not risk-based and focus almost exclusively on existing invasive plants, pests, and diseases rather than identifying potential new threats before they become established plant health emergencies.
- CFIA's national inspection targets for plant imports are interpreted and applied inconsistently across the country. High-risk imported commodities, which are subject to 100 percent inspection, are sometimes released for distribution without being inspected. Of the 27 approved import application packages we selected where inspection had been necessary, 10 were released for distribution without being inspected; in 6 other cases there was no record of having received the transaction in the inspection office. We were told that inspection of plant imports competes with pest surveys and export certification for inspectors' time and that exports are a higher priority.
- Plant protection programs are not adequately supported by information management and technology, resulting in the need for thousands of faxes sent internally across the Agency each year and the loss of documents. Further, there is no system for tracking imports, and decisions to approve or reject import application packages are based on manual reconciliation of information from a variety of paper and computer sources. There is no systematic mechanism for inspection offices to provide the Agency's Plant Health Division with inspection results, so the Division does not know if the inspection standards it sets are followed and are targeting the right commodities and importers. We first identified the lack of supporting information management in a 1996 audit of the Federal Plant Health Program and there has been little progress since then.
- Overall, the Plant Health Program lacks quality management processes in import-related activities key to keeping invasive alien species from entering and becoming established in Canada. As a result, management has no systematic way of knowing if its procedures are adequately designed and operating effectively. This compromises the Agency's ability to ensure that only shipments representing a low risk of contravening Canada's import requirements are approved for entry into the country. Further, these and other risk-mitigation problems we identified in many key

import-related activities in the Plant Health Program cut across the Agency's three main branches—Science, Policy and Programs, and Operations.

The Agency has responded. The Agency agrees with all of our recommendations. Its detailed responses follow each recommendation throughout the Chapter.

Introduction

4.1 The mandate of the Canadian Food Inspection Agency (CFIA) is to safeguard Canada's food supply, protect animals and plants, and support trade and commerce. This science-based regulatory agency is responsible for delivery of all federally mandated food inspection, plant protection, and animal health programs.

4.2 The Agency, which reports to the Minister of Agriculture and Agri-Food, employs over 6,000 people across Canada and is responsible for administering 13 federal statutes and related regulations. In the 2006–07 fiscal year, the Agency spent \$65.2 million—11 percent of its total spending—to protect Canada's crops and forests.

4.3 The Agency's plant protection authority comes from the federal *Plant Protection Act*. Under the Act, the Agency develops and implements policies and programs to prevent and manage the introduction of invasive plants (weeds), pests, and diseases that pose a hazard to Canada's plant resources and the economy. The purpose of the Act is “to protect plant life and the agricultural and forestry sectors of the Canadian economy by preventing the importation, exportation and spread of pests and by controlling or eradicating pests in Canada.”

4.4 The Agency is also responsible for Canada's obligations under the International Plant Protection Convention (IPPC). As Canada's National Plant Protection Organization (NPPO), the Agency's responsibilities include

- certifying that exports are free of invasive plants, pests, and diseases;
- inspecting imported plants and plant products; and
- carrying out pest surveys and plant health risk assessments.

4.5 The Agency is the contact point for the exchange of information connected with the implementation of the IPPC. As such, it is responsible for sharing information with other nations, such as the occurrence of incidents, outbreaks, and spread of plants, pests, and diseases.

Invasive Alien Species Strategy

4.6 In 2005, the federal government launched the Invasive Alien Species Strategy. The strategy is an \$85-million action plan that covers five years (ending in 2010). Under the strategy, the Agency received \$50 million to support its role in dealing with invasive alien plants, pests, and diseases.

4.7 The objectives of the strategy are consistent with those in the *Plant Protection Act*, which are to

- prevent harmful intentional and unintentional introductions of plants, pests, or diseases;
- detect and identify new invasive species, in a timely manner;
- respond rapidly to new invasive species; and
- manage established and spreading invasive species through eradication, containment, and control.

Carrying out the plant protection mandate

4.8 As it sets out in its risk profile, the Canadian Food Inspection Agency faces significant challenges in carrying out its plant protection mandate, including the following:

- responding in a timely fashion to an increase in global trade and changing environmental conditions that create different opportunities and threats;
- processing the increasingly diverse variety of plants and plant products being imported into Canada; and
- managing the increasing demands for import inspections, foreign country evaluations, and export certification.

4.9 The Agency

- regulates the import of a variety of plants and plant products, including grains and field crops, seeds, and forest and horticultural commodities;
- develops import policies and inspection standards;
- issues import permits;
- approves or rejects import shipments for release;
- carries out import inspections;

- conducts on-site verifications of certification systems in countries of origin;
- monitors pests and diseases; and
- certifies plants and plant products for export.



Asian Long Horned Beetle

Photo: K. R. Law, USDA APHIS PPQ, Bugwood.org

4.10 Since the Agency bills importers for its services every time they request approval to import a shipment into Canada, its financial system is able to provide an estimate of annual shipments. There are currently an estimated 84,000 shipments of regulated plants and plant products being imported into Canada.

Preventing entry of pests to protect the economy and environment

4.11 Invasive plants, pests, and diseases threaten both the economy and the environment. In their new ecosystems, invasive alien species may become new predators, competitors, parasites, and cross-breeders—any one or all of which can have an effect on native and domesticated plant resources. This effect can have a significant impact on the economy; for example, in 2005, the production value of Canada's forest and agricultural commodities was about \$100 billion dollars.

4.12 The impact of invasive plants, pests, and diseases on the environment is also significant. According to experts, invasive species are the second most serious threat to biodiversity after habitat loss. Their impact on native ecosystems, habitats, and species can be severe and often irreversible. Therefore, preventing invasive species from entering the country and detecting new species in a timely manner are critical to mitigate threats to Canada's export markets for its plant resources and to the environment.

4.13 By April 2008, the Agency had spent over \$140 million to manage existing plant health **emergencies**; it is important to note that the efforts may continue for years. The Agency's management of established and spreading invasive plants, pests, and diseases involves surveys, research, inspections, and export certification to monitor, eradicate, contain, and control. There are costs that are not accounted for here, including loss of markets, reduced crop yields, losses in property value, and increased firefighting (Exhibit 4.1).

4.14 Early identification is important, because the consensus is that it costs much less to deal with a new invasive plant, pest, or disease before it becomes established.

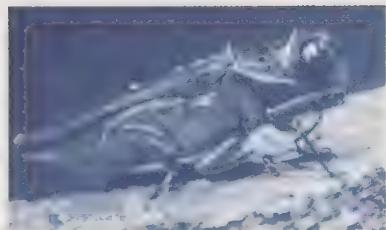
Emergency—According to the Canadian Food Inspection Agency, an emergency is “an abnormal situation which, to limit damage to persons, property or the environment, requires prompt action beyond normal procedures. Normally an emergency situation is one where the Agency must quickly deploy additional resources to mitigate potential impacts.”

4.15 The Agency does not have a role in all plant health incidents in Canada. For example, it does not regulate the current Mountain Pine Beetle infestation in British Columbia and Alberta, because this pest is native to Canada.

Exhibit 4.1 Existing plant health emergencies

Plant pest emergency	Description and impact of pest or disease	Emergency location	Year detected
Asian Long Horned Beetle	A destructive pest of hardwoods, especially maples. It poses a threat to both maple syrup and hardwood lumber industries in Canada.	Toronto–Vaughn, Ontario	2003
Emerald Ash Borer	An insect that kills ash trees, which are important to the ecology and economy of eastern Canada (Exhibit 4.2)	Southwestern Ontario	2002
		Toronto, Ontario	2007
		Montérégie Region, Quebec	2008
		Brampton, Ontario	2008
		Oakville, Ontario	2008
		Ottawa, Ontario	2008
Brown Spruce Longhorn Beetle	A beetle that kills spruce trees. It is native to northern and central Europe and is a direct threat to North American forests and Canadian forest commodities.	Nova Scotia	1999
Potato Cyst Nematode	Two types of nematodes are the Golden Nematode and Pale Cyst Nematode. They reduce yields of potatoes and other host crops such as tomatoes and eggplants by up to 80 percent	Quebec	2006
		Alberta	2007
Sudden Oak Death (<i>Phytophthora ramorum</i>)	A fungus-like pathogen that causes a disease on a wide variety of nursery plants. It has also been associated with a disease of oak.	British Columbia Nurseries	2003
Potato Wart	This disease is caused by a soil-borne fungus that attacks the growing points on the potato plant, such as eyes and buds. It is found in Prince Edward Island. It reduces yield and makes potatoes unmarketable.	Prince Edward Island	2000
Plum Pox Virus	A serious plant disease infecting stone fruit species, including peaches, nectarines, plums, apricots, almonds, and ornamental trees and shrubs. It does not kill trees, but can drastically reduce yields.	Southern Ontario	2000

Source: Canadian Food Inspection Agency

Exhibit 4.2 Emerald Ash Borer—Positive Sites Map

Emerald Ash Borer

Photo: D. Cappaert, Michigan State University, Bugwood.org



Source: Canadian Food Inspection Agency

4.16 The Canada Border Services Agency (CBSA) is a key partner in protecting Canada's plant resources. While the Canadian Food Inspection Agency is responsible for administering and enforcing the Plant Protection Act, CBSA is responsible, under the Canadian Food Inspection Agency Act, for the initial inspection of imports at airports and Canadian border points.

Focus of the audit

4.17 The Canadian Food Inspection Agency carries out a number of functions under its Plant Health Program. In 2004, we audited the Agency's management of plants with novel traits. This audit focuses on CFIA's management of risks to Canada's plant resources.

4.18 We examined the Agency's activities to determine whether it uses a risk-based approach to prevent the entry of alien plants, pests, and diseases into Canada. We also examined how it collects information on new invasive alien plants, pests, and diseases before they become established, and how it uses performance information to improve its decision making and to manage risk.

4.19 The focus of our audit was on the Agency's plant protection mandate as it relates to imports.

4.20 More details on the audit objectives, scope, approach, and criteria are in *About the Audit* at the end of this chapter.

Observations and Recommendations

4.21 During this audit, we examined whether the Canadian Food Inspection Agency uses a risk-based approach to managing hazards to Canada's plant resource base. Risk management is a tool for priority setting and decision making and is an essential component of good management.

4.22 The Treasury Board of Canada Secretariat's *Integrated Risk Management Framework* outlines nine key elements of a risk-based approach in federal departments and agencies, including the following four:

- identifying risks,
- assessing their likelihood and potential impact on achieving objectives,
- ranking risks and developing techniques to control risks that have a high likelihood of occurring and high impact, and
- collecting results-based performance information to support program delivery and monitor risk management processes.

4.23 In 2007, CFIA updated its Agency-wide risk assessment. It considered animal and plant pest hazards together and identified ways to manage the risk that the Agency will fail to appropriately prevent, detect, contain, and mitigate a significant plant and animal disease. Its risk mitigation activities related to the Plant Health Program include import controls and inspections, surveillance activities to detect new and existing threats, communication between branches, and a partnership with the Canada Border Services Agency.

4.24 We looked at the following key areas, which the Canadian Food Inspection Agency uses to reduce the risk of an invasive alien plant, pest, or disease entering and becoming established in Canada:

- conducting pest risk assessments and pest surveys,
- approving and inspecting regulated plant imports, and
- working with the Canada Border Services Agency.

4.25 We found significant problems in many of the Agency's risk-mitigation activities and processes pertaining to imports. Many of the problems in the Plant Health Program cut across the Agency's three main branches: Science, Policy and Programs, and Operations. The underlying causes of the problems related to risk management are covered in detail in the last section of this chapter, Improving risk

management of the Plant Health Program as it relates to imports (page 23), along with our recommendations for improvement.

Assessing plant risks

Pest risk assessments meet expectations

4.26 The Plant Health Risk Assessment (PHRA) Unit in the Agency's Science Branch is responsible for completing pest risk assessments to determine

- whether certain commodities could carry invasive plants, pests, or diseases;
- whether those invasive plants, pests, or diseases could become established in Canada; and
- whether, once established, the invasive plants, pests, or diseases will damage the agriculture and forestry sectors of the economy and the environment.

4.27 Pest risk assessments represent scientific support for regulation, by the Plant Health Division, to prevent the entry of pests into the country or their spread if already present. We expected that individual pest risk assessments would be comprehensive, timely, and linked together to provide an overall assessment of pest **pathways**.

4.28 New pest risk assessments are triggered by requests from the Policy and Programs Branch. Triggers for requests may include the need for a response strategy to a newly identified pest or the need for a scientific analysis when an importer proposes a new type of import.

4.29 We found that the Agency's completed pest risk assessments are comprehensive and provide a risk-based scientific analysis of pathways for invasive plants, pests, or diseases. Assessments are frequently updated to reflect new information; some have been updated periodically for more than a decade.

A growing backlog of risk assessments reduces scientific support for risk management

4.30 We examined documents indicating the level of activity with respect to pest risk assessments and updates. We found that, as of 31 March 2008, there was a backlog of 42 requests for full pest risk assessments and 4 requests for updates—some dating back to as early as 1999. We also found that over the past two years, the completion rate has been about 63 percent.

4.31 Based on the level of activity in the past two years, the backlog is likely equivalent to what the PHRA Unit is able to produce in a year or more. Since there is no indication that the number of annual requests

Pathway—Any means that allows the entry or spread of an invasive plant, pest, or disease, such as commodities and modes of transportation.

will decrease in the near future, at current staff levels, we expect the backlog to continue. The backlog reduces the level of scientific support for the Agency's risk management efforts to prevent or mitigate damage to the agriculture and forestry sectors of the economy and to the environment. Moreover, our review of pertinent documentation indicates that the backlog is growing.

Conducting pest surveys

4.32 The Canadian Food Inspection Agency routinely conducts pest surveys in various regions of Canada, sometimes with other partners. The results of these surveys provide the Agency with valuable scientific data that it uses for regulatory decision making.

4.33 Pest surveys are conducted to

- determine whether existing plants, pests, or diseases have spread;
- detect new invasive plants, pests, or diseases;
- identify changes in survey results from one year to the next;
- support eradication or control programs;
- validate Canada's plant import requirements;
- support export certification requirements;
- inform plant policy decision making; and
- support bilateral trade negotiations.

4.34 Given the importance of pest surveys, we expected that the Agency would have a formal risk-based process to help prioritize its survey work. This would enable management to focus survey activities on the highest-risk invasive plants, pests, and diseases.

A formal risk-based process is needed to ensure that pest survey work is properly prioritized

4.35 The Agency's Plant Health Surveillance Unit is responsible for planning, coordinating, and administering the national pest survey program. The Unit also plays a lead role in designing new surveys, developing survey protocols, and refining ongoing techniques and tools as new methodologies develop. The actual survey work is done by the Agency's regional operations staff.

4.36 Plant pest surveys target existing and potential pests. Survey methodology determines

- the number of samples;
- the selection and number of sites;

- the frequency of sampling; and
- sampling procedures, which include “attractant trapping” (using traps or lures with natural or chemical scents), plant sampling, soil sampling, and visual inspection.

4.37 We reviewed the yearly survey plans and found that the Agency does not rank or prioritize its surveys according to risk. We further noted that survey plans do not provide a rationale for the proportion of surveys focused on existing pests versus those focused on new ones. We also found that operational pressures sometimes mean that pest survey protocols are scaled back compared with plans.

4.38 We are concerned that without a formal risk-based process to prioritize yearly survey work, there is no way for the Agency to ensure that its limited survey resources are used where they will have the greatest impact. We are also concerned that, if the Plant Health Surveillance Unit continues to try and accommodate all survey requests from plant health program staff, the overall quality of the surveys could be affected, since the protocols are altered according to available resources.

4.39 New invasive plants, pests, and diseases. Information gathered through pest surveys can be used to determine if new plants, pests, and diseases have entered Canada.

4.40 We found that only a small proportion of surveys are focused on detecting new invasive plants and plant pests on an annual basis. Agency officials told us that most surveys are undertaken to certify exports, that is, to provide scientific assurance that plants and plant products for export are free of certain pests or diseases.

4.41 Twenty-one of the twenty-five surveys planned for 2008 are for pests that already exist in Canada. Officials said the proportion of surveys focused on new plants (weeds), pests, and diseases has not changed significantly in the last five years. We are concerned that the relative lack of attention to surveys for new plants, pests, and diseases could limit the Agency's ability to deal effectively and economically with new invasive species, before they become established plant health emergencies.

4.42 Quality of survey data. Pest surveys provide information to support all of the Agency's regulatory plant health programs: import, export, and domestic. Reliable and accurate pest distribution data provides the basis for sound regulatory decisions. We expected the

Agency to verify and record the information derived from the pest surveys on invasive alien species.

4.43 We found that there is no formal Plant Health Program quality management system in place to

- monitor surveys,
- determine whether surveys are conducted according to established protocols, or
- verify the accuracy of the survey information collected.

4.44 Staff responsible for the design of pest surveys informed us that they have no direct management responsibility over the regional operations employees who carry out the surveys. Furthermore, we were told that the Plant Health Surveillance Unit does not compare the completed survey work with the work outlined in the plan. In the absence of clear oversight responsibility and performance information, those responsible for developing the surveys have no assurance that the surveys are carried out as planned.

4.45 Recommendation. The Canadian Food Inspection Agency should develop and implement a formal, risk-based approach to pest surveys. The approach should link identified risk of existing and potential pests and diseases with the priority of the survey. It should also ensure that the protocols for the conduct of pest surveys are followed and that survey data are accurate and reliable.

The Agency's response. The Agency agrees with this recommendation. The Agency will examine ways in which pest surveys can be prioritized in a more formal manner to better balance trade and commerce needs with the identification of new and existing pests and diseases. Currently, pest survey design and prioritization are based on comprehensive pest risk assessments. As well, the progress and outcomes of the surveys are monitored informally during the course of the survey season. The Agency will align the conduct of surveys under a broader quality management system for the Plant Health Program, which will better support accuracy and reliability of survey data.

Approving plant imports

4.46 In December 2003, the federal government created the Canada Border Services Agency (CBSA) to integrate the front-line border management and enforcement activities formerly performed by other organizations—including the Canadian Food Inspection Agency's program, Import Inspection at Ports of Entry.

4.47 When an importer or broker declares that a shipment contains plants or plant products that are regulated by CFIA, the CBSA will not allow the shipment into Canada without CFIA approval. The CBSA uses the CFIA import service centres to review import application packages submitted by importers or brokers. The three centres are located in Montreal (Eastern Region), Toronto (Central Region), and Vancouver (Western Region).

4.48 Approval at the centres is based on a document review. This review is conducted before the release of the goods in Canada. Currently, about 84,000 import application packages are reviewed in the three centres. Importers or brokers fax import application packages to an Import Service Centre, and the centre staff follow procedures to review the faxed documentation and assess the application packages for completeness and accuracy.

4.49 Decisions by import service centre staff to approve or reject import application packages are based on manual information reconciliations from a variety of paper and computer sources. Staff will then

- fax the approval or rejection back to the importer or broker;
- fax approved import application packages to a CFIA inspection office for follow-up, as required; and
- inform the CBSA of their decision.

4.50 Employees at import service centres face significant seasonal fluctuations in work volume, some technical complexities in their job requirements, and pressure to process import application packages quickly. They told us that if they fall behind, CFIA may be responsible for border delays.

Key controls are not adequate to verify that only low-risk shipments are approved

4.51 We expected the Canadian Food Inspection Agency to have procedures in place to ensure that only those shipments of imported plants and plant products that represent a low risk of contravening Canada's import requirements would be approved for entry.

4.52 The Agency has developed import operational procedures for Import Service Centres to guide staff in deciding to approve or reject an import application package.

4.53 One procedure requires that centre staff access the **Automated Import Reference System (AIRS)**. A very precise knowledge of a shipment is needed in order to prompt the system appropriately.

Automated Import Reference System (AIRS) An internet-based Agency application that asks the user a series of questions about the origin, destination, end use, and miscellaneous qualifiers of the commodity to be imported. The system determines documentation requirements based on the user's answers to the questions.

Agency officials confirmed that the system is not designed well for plants and plant products, given that there is a risk that it could provide different information on the same commodity.

Phytosanitary certificate—Issued by the exporting nation's plant health organization to certify/declare that a particular shipment meets Canadian standards.

Import permit—Official permission to import specific plants and plant products. Import permits are issued by the Agency's Import Unit in accordance with national policy guidelines, under provision of the *Plant Protection Act* and regulations.

Import Permit System (IPS)—An Agency system containing all import permits issued by the Agency. The system can be searched by importer and will provide the importer's permit history.

4.54 For example, depending on how information is input, the system could provide differing **phytosanitary certificate** requirements. Determining whether a phytosanitary certificate is required to import a particular commodity or determining the particular requirements are key reasons for centre staff to access the system.

4.55 The Agency accepts faxed copies of phytosanitary certificates and import permits in import application packages submitted by importers or brokers. As key controls, procedures call for centre staff to match faxed phytosanitary certificates to originals and to compare faxed **import permits** (or permit numbers quoted in the import application packages) to the Agency's **Import Permit System**.

4.56 In the import application packages we reviewed, the faxed phytosanitary certificates were often illegible. Agency officials told us that, due to time constraints, the faxed certificates are rarely matched to the original certificates.

4.57 The Agency has no control measures to ensure that import permits and phytosanitary certificates are validated. We are concerned that failing to systematically check the validity of phytosanitary certificates and import permits increases the risks to Canada's plant resources. (See section entitled Improving risk management of the Plant Health Program as it relates to imports, page 23.)

Critical information is not communicated effectively within the Agency

Border Lookout—A system that Canada Border Services Agency uses to control products at the border and to inform the Canadian Food Inspection Agency of their arrival in Canada. It provides the information and direction required to reduce or manage imports with identified risks.

Notice to Importer—Document issued for commodities which require 100 percent inspection by the Canadian Food Inspection Agency.

4.58 One of the roles of the Policy and Programs Branch is to publish standards and alerts used by the Operations Branch, which includes Import Service Centres and inspection offices. Two forms of alert are the **Border Lookout** and the **Notice to Importer**.

4.59 Border lookouts can, for example, identify importers who are known for serious non-compliance in the past. We found that border lookouts are communicated effectively within the Agency.

4.60 We found that other critical information needed by operations is not communicated effectively. Notices to importers are similar in concept to border lookouts; that is, they generally identify high-risk commodities and high-risk exporting countries or regions. However, we found that the notices are not systematically communicated within the Agency. Even though the list of notices is not lengthy, rather than

having a complete, updated list that is periodically circulated, emails are sent out requesting that individual items be added to or removed from the list. The lists used by the Import Service Centres in mid-February 2008 were not identical. For example,

- the lists provided by the Central and Western centres included “all Barberry plants from all countries,” while the list from the Eastern centre did not; and
- the lists provided by the Eastern and Western centres indicated that plants/nursery stock and bulbs imported from offshore required 100 percent inspection, while the list from the Central centre referred to all plants imported from offshore.

(See section entitled Improving risk management of the Plant Health Program as it relates to imports, page 23.)

There is no adequate quality assurance process to ensure that only low-risk shipments are approved for entry

4.61 We asked whether supervisors are required to review a sample of staff approvals of import application packages and document their review, if some type of audit is done later, or if there are any other formal procedures for reviewing the quality of centre staff decisions. Agency officials told us that none of these quality assurance measures currently exist for the Plant Health Program. We concluded that the Agency does not have an adequate quality assurance process to ensure that only low-risk plant imports are approved for entry into Canada.

Inspecting plant imports

4.62 Once an Import Service Centre employee approves a shipment for entry into Canada, the import application package is faxed back to the broker or importer as well as to the inspection office nearest to the shipment's destination.

4.63 If the employee determines that a shipment contains an item on the list of either border lookouts or notices to importers, procedures require that a “Notice to Importer” form be attached to the approved import application package. When such a form is attached, the importer is required to hold the shipment at the initial destination until it can be inspected by the Canadian Food Inspection Agency.

4.64 Where an imported plant or plant product shipment does not require a “Notice to Importer” form, area inspection offices select shipments for inspection and communicate this decision to importers.

4.65 Currently, about 84,000 shipments of regulated plants and plant products enter Canada. According to 2007–08 Agency information,

these shipments represent about 59 percent of the imports that fall under the Agency's jurisdiction; the remaining 41 percent are live animal and food imports. Given their numbers, inspection of all plant or plant product import shipments is neither practical nor cost-effective. Thus, we expected the Agency to use a risk-based approach to target shipments of imported plants and plant products for inspection at their point of destination.

Conducting sufficient import inspections is a challenge

4.66 Agency officials were unable to provide us with statistics on the volume of these imports or on inspection rates over the years. (From plant import invoices, it is estimated that 84,000 plant shipments came into Canada in the 2007–08 fiscal year.) However, they did tell us that imports have grown significantly, and that inspection of plant and plant product imports compete with other Agency inspections. In fact, some offices are responsible for inspections under a number of different Agency programs—for imports of other commodities and for export certifications—along with other work, including carrying out pest surveys.

4.67 The officials also told us that where there are competing demands, certifying exports is generally a higher priority than inspecting imports, so export shipments are not delayed. We were told that conducting enough import inspections is a challenge.

Poor communication leads to inconsistent inspection approaches

4.68 We found that the information that inspection offices need to prioritize their import inspection efforts was not always communicated effectively or understood consistently across the Agency.

4.69 The Plant Health Division publishes target inspection standards for medium-risk plants and plant products that are not subject to 100-percent inspection.

4.70 We learned that inspection standards are not interpreted consistently. For example, some inspection staff interpret “67-percent inspection” to mean that 67 percent of every shipment must be inspected, and others interpret it to mean that 67 percent of all shipments in a given year must be inspected. Officials of the Plant Health Division explained that a 67-percent inspection standard actually means a full inspection of two out of every three shipments.

4.71 When we asked staff in the three inspection offices—in Montreal, Toronto, and Vancouver—for the target inspection

standards they use, they provided us with versions from the 1997–98, 2006–07, and 2003–04 fiscal years, respectively. We found that the lists of inspection standards in the three documents can vary for a given commodity.

4.72 For example, for fresh fruit and vegetables, both Toronto's and Vancouver's lists call for 10-percent inspection, while Montreal's calls for 50-percent inspection. A few of the most notable differences are the standards applied to cut flowers (for example, chrysanthemums). Toronto's list calls for a 25-percent inspection standard, and Vancouver's list calls for a 5-percent inspection standard. However, instead of an inspection standard, Montreal's list calls for one visit to an import destination per month.

There is no national tracking system for imports of plants and plant products

4.73 Officials in Toronto and Vancouver explained to us how they attempted to develop local tracking systems in the absence of a national one. Operation of the Vancouver system was discontinued at the request of headquarters. The Toronto system is still in use, but Agency officials indicate that it is growing too large for the software that it runs on, so the database is becoming corrupted.

4.74 The absence of a national tracking system creates a number of problems:

- The Agency does not know the exact number of regulated shipments that are imported into Canada annually.
- Trace-backs (situations where the Agency becomes aware of a possible problem with a shipment and attempts to trace the destination of the shipment) must be done manually. For example, officials in a Toronto inspection office told us that a 2001 trace-back of chrysanthemums required the redeployment of five employees for five days to search paper records.
- Communication of information between Agency offices is not efficient. Currently, copies of import documentation for all approved shipments are faxed from the Agency's import service centres to its inspection offices. The high volume (thousands) of internal faxes creates a risk of missing documents.
- Actual inspection rates cannot be compared with target inspection standards in any systematic way to determine if actual coverage meets expectations. In other words, it is not possible to determine whether 50 percent or 10 percent of a specific commodity has been inspected.

- Inspection results are not tracked and cannot be captured in a form that would allow detailed analysis. Information available in the inspection offices is not provided to the Policy and Programs Branch in a systematic and regular manner. This means that the branch does not know if the inspection standards it sets are targeting the right commodities and importers, or if they are being properly followed, and as a result, the branch is not able to make timely and effective adjustments to its standards.

4.75 Because it does not have a national tracking system, the Agency lacks the performance information it needs to monitor and manage its Plant Health Program related to imports. (See section entitled Improving risk management of the Plant Health Program as it relates to imports, page 23.)

Missed inspections and lost information may present a serious concern

4.76 We selected 27 approved import application packages from February 2008 with a Notice to Importer (these packages require 100 percent inspection) and tracked them from the Import Service Centres to the relevant inspection offices to determine if all inspections were completed. We found that

- ten packages were released without inspection;
- in six cases, the inspection office nearest the destination had no record of having received the import application packages; and
- eleven packages were inspected in accordance with Agency requirements.

4.77 The results of our analysis of 27 cases cannot be extrapolated to all of the import application packages that the Agency approved. However, this analysis does indicate that, during a brief period, the Agency was not able to carry out necessary inspections of plant and plant product imports. These imports represent the highest risks to Canada's plant resources, as determined by the Policy and Programs Branch.

There is no quality assurance system to validate the effectiveness of a risk-based approach

4.78 We expected the Agency to draw random samples from imported plant and plant product shipments that are selected for inspection at their destination to

- assess compliance with import laws, regulations, and standards;

- assess the effectiveness of its import inspection practices; and
- improve future performance.

4.79 We were told by Agency officials that

- no such random sampling is carried out;
- no sampling plans are in place for random inspections of plants and plant products to validate that its risk-based approach is effective, that is, that only low-risk commodities are approved for import and distribution into Canada; and
- no other quality assurance system is in place for the Plant Health Program related to imports.

Working with the Canada Border Services Agency

4.80 In December 2003, the federal government created the Canada Border Services Agency (CBSA). One of its responsibilities is to enforce the provisions of the *Plant Protection Act* that relate to the delivery of passengers and initial import inspection services that are performed at airports and other Canadian border points.

4.81 We did not audit CBSA directly. Instead, we examined how the Canadian Food Inspection Agency ensures that the part of its mandate related to plant protection is being fulfilled by CBSA. The two agencies signed a Memorandum of Understanding (MOU) in January 2005, which sets out the following three key areas of interaction:

- CFIA is to provide technical assistance, since the food, plant, and animal inspection programs are science based.
- The agencies are to jointly determine training needs and requirements for CBSA employees.
- There is to be information exchange between CFIA and CBSA.

Direction and support is provided to the Canada Border Services Agency

4.82 The Canadian Food Inspection Agency's food, plant, and animal inspection programs are science based. In order to meet its responsibilities (as set out in the MOU) to provide technical assistance, we expected CFIA to provide CBSA with direction and support.

4.83 We found that when CBSA took over responsibility for the border, CFIA provided it with reference material and with information to help it assess border risks. In addition, CBSA officials routinely find undeclared products and unidentified plants, pests, and diseases; and

they need to consult CFIA officials for technical expertise. We found that CFIA responds to CBSA's requests for assistance.

Information requirements are not formally defined

4.84 Training CBSA staff. Since it is provided for in the Memorandum of Understanding (MOU) between the two agencies, we expected CFIA to be involved in the training of CBSA staff.

4.85 We found that while CFIA has been involved in training activities related to plant protection in a number of areas, its role has diminished over time. We found that, since CBSA assumed full responsibility for enforcing the *Plant Protection Act*, CFIA has not provided input into the training material that has been developed.

4.86 We expected CFIA to have requested information from CBSA on the training it provides to its Border Services officers. We found that, while CFIA has received some information, it did not request the information from CBSA. As a result, CFIA cannot determine if its plant protection mandate and CBSA training are aligned.

4.87 Exchange of information. The MOU provides for the exchange of information between CBSA and CFIA. Information on the results of CBSA inspections is important to both inform CFIA's internal operations and meet its international responsibilities. We expected CFIA to have developed a list of the performance information that it requires from CBSA and a strategy for obtaining that information in a regular and systematic way.

4.88 We found that CFIA receives reports on border lookouts, inspections at airports, and wood packaging. We were not able to find formal requests to CBSA from CFIA for the results of the inspections it undertakes of shipments that contain undeclared (smuggled) regulated plants and plant products or invasive plants, pests, or diseases.

4.89 Without this information, CFIA is limited in its ability to track

- which importers or exporters are involved and possibly non-compliant;
- what particular invasive plants, pests, or diseases are found at borders;
- what enforcement action has been taken; and
- whether there is a pattern of non-compliance.

4.90 This incomplete information also restricts CFIA's capacity to risk-manage imports, including taking appropriate phytosanitary actions in conjunction with the exporting countries.

4.91 Recommendation. To meet its plant protection mandate, the Canadian Food Inspection Agency, in collaboration with the Canada Border Services Agency, should formally define the performance information it requires from CBSA, and it should develop an action plan for obtaining and monitoring the required information.

The agencies' response. The Canadian Food Inspection Agency and the Canada Border Services Agency agree with this recommendation, as close cooperation between CFIA and CBSA is necessary for both agencies to fulfill their responsibilities under their respective mandates. CFIA will develop a protocol with CBSA that clearly outlines necessary information on the delivery of CFIA programs at border points. CFIA will then engage CBSA to develop an action plan to obtain the required information.

Improving risk management of the Plant Health Program as it relates to imports

4.92 We found a number of significant problems in many of the Agency's risk-mitigation activities and processes pertaining to the import component of the Plant Health Program that cut across the Agency's three main branches: Science, Policy and Programs, and Operations and affect its ability to protect Canada's plant resources. We consider the following four conditions to be underlying causes of the problems we identified in the Plant Health Program:

- There is a lack of appropriate coordination between branches, which contributes to issues in the Plant Health Program.
- The Plant Health Program does not have adequate quality management systems.
- There is a lack of information management and information technology support.
- Import volumes are increasing.

4.93 Our findings are not new to the Agency. In fall 2003, its own review of the key elements of Plant Health Program delivery identified problems similar to ours, including

- the need to identify survey priorities;
- the need to update the Automated Import Reference System (AIRS);
- poor review of documentation in import service centres;

- outdated procedure manuals for import inspections;
- limited and ineffective feedback, information sharing, and learning mechanisms between Policy and Programs and Operations branches; and
- a lack of formal oversight mechanisms, such as internal audit and a quality management system.

The lack of appropriate coordination between branches contributes to issues in the Plant Health Program

4.94 The vice-presidents at the Canadian Food Inspection Agency are each responsible for a functional area across the Agency. Plant Health is one of a number of major programs within the Agency. Three vice-presidents and their branches have particularly significant roles within the Plant Health Program:

- The Science Branch, under the Vice-President of Science, supports the Agency's plant health objectives through laboratory science, risk assessment, pest surveys, and research.
- The Policy and Programs Branch, under the Vice-President of Policy and Programs, develops plant health programs and policies and supports the operational delivery of the Plant Health Program.
- The Operations Branch, under the Vice-President of Operations, is the largest; it administers and enforces the Agency's plant protection acts and regulations—in 18 regions and 185 field offices across Canada.

4.95 We found that coordination between branches is lacking and that this contributes to overall issues within the Plant Health Program. For example, earlier we noted that communication of inspection standards from headquarters to regions is not done effectively. This involves communication between the Policy and Programs and Operations branches.

4.96 The magnitude of the issues noted in this audit suggests that the Agency needs a clear champion to head efforts to address these issues in a timely way.

The Plant Health Program does not have adequate quality management systems

4.97 A wide variety of symptoms—including poor communication, important decisions not being formally reviewed, and lost documents—point to an absence of quality management systems for

the Plant Health Program as an underlying cause of the issues with risk management.

4.98 As set out in the Agency's *Quality Management System Manual*, quality management systems provide management with assurance that systems are designed to work effectively and that they actually are working as intended. Currently, the Agency's management lacks this assurance for the Plant Health Program.

4.99 Recommendation. The Canadian Food Inspection Agency should implement quality management systems to provide management with assurance that the Plant Health Program, as it relates to imports, is designed to effectively manage risks to Canada's plant resources and that it operates as intended.

The Agency's response. The Agency agrees with this recommendation. CFIA will work toward implementing a broader quality management system within the Plant Health Program similar to those in place for other CFIA programs, which will better provide management with assurance that the import component of the Plant Health Program is designed and operates as intended. The quality management system and ongoing national training program will build upon the updated national policies and procedures as outlined in the *Plant Health Import Inspection Manual*.

There is a lack of information management and information technology support

4.100 We found that the thousands of faxes exchanged each year and problems with lost documents point to a lack of information management and information technology support for the program. There is considerable opportunity to improve operations and management information by using better technologies.

4.101 Plant Health Program officials indicate that they are currently working to see how technology might be used to better support the program in the future. While this is a positive development, information management issues have been known for many years; we raised these issues in our 1996 audit of the animal and plant health programs (Chapter 9, May 1996), when they were part of Agriculture and Agri-Food Canada.

4.102 We expected the Canadian Food Inspection Agency to have and to use performance information, which is an essential component of effective management, to support decision makers in the delivery of its Plant Health Program, as required under federal government policies. Weak information management and information technology means

that the Agency cannot collect and analyze information on how the program is performing or know whether it is achieving its objectives.

4.103 Recommendation. The Canadian Food Inspection Agency should complete its assessment of possible information management and information technology support for the Plant Health Program, and it should identify options for funding those needs.

The Agency's response. The Agency agrees with this recommendation. CFIA has successfully implemented a consistent approach to assess information management and information technology needs across the Agency. As part of the approach, CFIA is working toward identifying and meeting the business needs of the Plant Health Program as it relates to imports. The Agency will identify options for funding its overall information management and information technology priorities.

Import volumes are increasing

4.104 A final underlying cause of problems with the Plant Health Program is the lack of alignment between import volumes and available resources. The volume of imports that the Agency must review and inspect has increased significantly. In addition, the fact that inspectors are sometimes called on to inspect other commodities, to certify exports, and to conduct surveys makes it difficult to determine which resources are actually deployed to inspect imports of plants and plant products.

4.105 There is a belief among Agency officials that certifying exports is a high priority and uses a greater proportion of resources. Unfortunately, because it lacks good information systems, the Agency cannot readily capture trends in program demands and resources over the years.

4.106 The Agency needs to define service standards for its plant health regulatory activities and needs to determine the costs of meeting the standards. Ideally, for the import of plants and plant products, the standards should be defined in terms of its plant protection mandate, taking into account the level of risk Canada should accept as well as the associated costs.

4.107 Currently, the Plant Health Program draws its funding from the Agency's ongoing operational money, from the Invasive Alien Species Strategy, and from funds provided for specific existing plant health emergencies. The funding from the strategy is the largest, single influx of money that has gone into the program in more than two decades.

This funding has enabled the program to enhance core activities, including preventative measures, risk assessments, pest surveys, and inspections; it also enabled the addition of new initiatives. The Invasive Alien Species Strategy is a time-limited initiative, and it is scheduled to end in 2010.

4.108 When we examined the volume of regulated plant imports that may require inspection, we found that the volume had more than doubled between the 2000–01 and the 2007–08 fiscal years. The Agency is aware that it faces a significant challenge in managing the increasing demands for import inspections.

4.109 Recommendation. The Canadian Food Inspection Agency should define the required level of science, policy, and operations necessary to fulfill its plant protection mandate as it relates to imports. It should then determine the level of funding needed to carry out these responsibilities.

The Agency's response. The Agency agrees with this recommendation. As a party to the International Plant Protection Convention (IPPC), CFIA is recognized as a leader internationally for its standards, policies, regulations and initiatives, based on scientific risk assessments. Canada, similar to all countries, is affected by the increased complexity of plant pest risk pathways. CFIA recognizes the need to continuously review and assess its science, policy and operational requirements to update its approach underlying the Plant Health Program. A review is currently being conducted on the Invasive Alien Species (IAS) Program, which is a component of the Plant Health Program. The results of this review as well as other activities will identify the level of science, policy and operational activities and associated funding needs of the import component of the Plant Health Program.

The import component of the Plant Health Program needs to be assessed

4.110 Our audit identified problems in the Agency's risk-mitigation activities and processes that limit its ability to risk-manage imported hazards to Canada's plant resource base. Each recommendation is intended to address key underlying causes of our audit findings. Together, our findings lead us to conclude that CFIA should undertake a comprehensive assessment of the scope and delivery of the Plant Health Program as it relates to imports, in the context of new environmental and external realities.

Conclusion

4.111 The Canadian Food Inspection Agency faces a number of challenges in assessing the risks posed by invasive plants, pests, and diseases. The Plant Health Risk Assessment Unit has a growing backlog. Its current backlog is equivalent to what it is able to produce in a year. The yearly pest survey plans of the Plant Health Surveillance Unit are not risk-based and focus almost exclusively on existing invasive plants, pests, and diseases rather than identifying potential new threats before they become established plant health emergencies.

4.112 The Agency has procedures in place to guide the Import Service Centre staff who review import approval packages and inspection standards in place to guide inspectors. However, since there are no systematic quality assurance processes in the Plant Health Program pertaining to imports, the Agency does not know whether this guidance is followed, nor does it know what decisions employees make.

4.113 A fundamental component of risk management is continuous communication, which helps ensure that the activities of all staff are aligned with the objectives of the organization. The Agency's ability to demonstrate that it uses performance information in its decision making and in its risk management of plant resources is limited by inadequate communication and feedback between key Agency branches and a lack of information management and information technology capacity in the Plant Health Program related to imports.

4.114 The Canada Border Services Agency is one of the Canadian Food Inspection Agency's key partners in protecting Canada's plant resources. CFIA receives some information from CBSA on training and on results of inspections. However, CFIA has not formally defined the information it requires. Incomplete information reduces CFIA's ability to fully risk-manage imports, including taking appropriate phytosanitary actions against non-compliant importers or exporters.

4.115 Our audit findings are not new to the Canadian Food Inspection Agency. In fall 2003, it reviewed the key elements of delivery of the Plant Health Program, and it identified problems similar to ours.

4.116 Our overall conclusion is that the Agency lacks an effective, integrated risk-management approach to plant and plant product imports. We identified significant problems in the Agency's risk-mitigation activities and processes. The following contribute to the problems uncovered during the audit of the import component of the Plant Health Program:

- lack of adequate quality management systems;
- inadequate information management and technology—weak information management in the Plant Health Program is a long-standing deficiency highlighted in our May 1996 audit of the animal and plant health programs (Chapter 9) in Agriculture and Agri-Food Canada;
- lack of appropriate coordination between branches; and
- increasing import volumes.

About the Audit

Objectives

The following were the objectives of the audit:

- Determine whether the Canadian Food Inspection Agency can demonstrate that it uses an appropriate risk-based approach in activities designed to prevent the entry of invasive alien plants, pests, and diseases into Canada.
- Determine whether the Agency can demonstrate that it maintains and carries out a risk-based pest survey program to collect, confirm, and compile information on new invasive alien plants, pests, and diseases before they become established.
- Determine whether the Agency can demonstrate that it analyzes and uses performance information to improve its decision making and risk-management approach to protect plant resources.

Scope and approach

The Canadian Food Inspection Agency carries out a number of functions under its Plant Health Program. Our work focused on the Agency's management of the risk that invasive alien plants, pests, and diseases could enter or become established in Canada.

We examined how the Agency conducts pest risk assessments and pest surveys. We also examined how the Agency approves imports of plants and plant products and targets shipments for inspection. Our work focused on performance monitoring and management of the Agency's Plant Health Program as a whole.

The Canada Border Services Agency (CBSA) is a key partner in protecting Canada's plant resources. We did not audit CBSA directly. We examined the extent to which the Canadian Food Inspection Agency has assurance that the part of its mandate that requires it to protect Canada's plant resources is being fulfilled by CBSA.

Our audit covered work done by Canadian Food Inspection Agency staff at

- the Agency headquarters in Ottawa;
- the three import service centres (Vancouver, Toronto, and Montreal); and
- inspection offices across the country.

We collected evidence through

- interviews with key Agency personnel and external stakeholders;
- reviews of relevant documents and files; and
- site visits to observe operations at the Agency's three import service centres and at select regional offices.

We did not audit the Agency's approach to certifying that plants and plant product exports are free from disease and pests, nor did we audit the Agency's management and control of existing plant emergencies.

Criteria

Listed below are the criteria that were used to conduct this audit and their sources.

Criteria	Sources
The Agency has conducted an adequate pathway analysis and related risk assessments to prevent the introduction of invasive alien species in Canada.	<ul style="list-style-type: none"> • International Plant Protection Convention (1997), Article IV, Section 2 (f) • International Standards for Phytosanitary Measures, numbers 1 (2006), 2 (2007), and 20 (2004) • Proposed Action Plan for Invasive Alien Terrestrial Plants and Plant Pests, Phase 1 (2004), sections 4.3 and 4.4 • Action Plan for Invasive Alien Terrestrial Plants and Plant Pests, Phase 2—Proposed Implementation Plan (2005), sections 5.2, 7.1, and 7.2 • International Plant Protection Convention (1997), Article IV, Section 2(g), and Article VII, Section 2(g) • International Standards for Phytosanitary Measures, numbers 1 (2006), 2 (2007), and 14 (2002)
The Agency approves only those shipments of imported plants and plant material for entry into the country that represent a low risk of contravention.	<ul style="list-style-type: none"> • Action Plan for Invasive Alien Terrestrial Plants and Plant Pests, Phase 2—Proposed Implementation Plan (2005), sections 5.1, 5.2, 7.1, and 7.2 • Treasury Board of Canada Secretariat, Integrated Risk Management Framework (2001) • Treasury Board of Canada Secretariat, Integrated Risk Management Implementation Guide (2004)
The Agency has appropriate risk-based processes in place to target shipments of imported plants and plant material for inspection at their point of destination.	<ul style="list-style-type: none"> • International Plant Protection Convention (1997), Article IV, Section 2(c), and Article VII, Section 2(g) • International Standards for Phytosanitary Measures, numbers 1 (2006), and 14 (2002) • Proposed Action Plan for Invasive Alien Terrestrial Plants and Plant Pests, Phase 1 (2004), sections 4.3 and 4.4
The Agency regularly draws random samples from imported plant and plant product shipments for inspection at destination and testing to assess compliance with import laws, regulations, and standards; to assess the effectiveness of its import inspection practices; and to improve future performance.	<ul style="list-style-type: none"> • International Standards for Phytosanitary Measures, Number 23 (2005) • Treasury Board of Canada Secretariat, Integrated Risk Management Framework (2001), Element 4 • Treasury Board of Canada Secretariat, Integrated Risk Management Implementation Guide (2004)
The Agency provides input into CBSA training materials related to secondary import inspections involving plants and plant products.	<ul style="list-style-type: none"> • International Standards for Phytosanitary Measures, Number 20 (2004)
The Agency provides technical assistance to CBSA to target secondary inspections.	<ul style="list-style-type: none"> • Memorandum of Understanding between the Canada Border Services Agency and the Canadian Food Inspection Agency (2005), sections 4, 30, 31, and 32; Annex G, sections 3, 4, 5, and 6 • International Standards for Phytosanitary Measures, numbers 1 (2006), 20 (2004), and 23 (2005) • Memorandum of Understanding between the Canada Border Services Agency and the Canadian Food Inspection Agency (2005), Sections 24, and 28; Annex G, Section 5

Criteria	Sources
The Agency provides technical assistance to CBSA to target secondary inspections.	<ul style="list-style-type: none"> International Standards for Phytosanitary Measures, numbers 1 (2006), 20 (2004), and 23 (2005)
The Agency obtains accurate, complete and timely results-based performance information and analyses on CBSA's targeting and secondary inspection activities.	<ul style="list-style-type: none"> Memorandum of Understanding between the Canada Border Services Agency and the Canadian Food Inspection Agency (2005), Sections 24, and 28; Annex G, Section 5 International Standards for Phytosanitary Measures, Number 20 (2004) Memorandum of Understanding between the Canada Border Services Agency and the Canadian Food Inspection Agency (2005), Annex H, sections 2, 3, and 4 Treasury Board of Canada Secretariat, Policy on Information Management (2007), elements 5 and 6 Treasury Board of Canada Secretariat, Policy Framework for Information and Technology (2007), Element 3
The Agency has a risk-based pest survey program in place to carry out surveys to detect and identify new invasive alien species before they become established.	<ul style="list-style-type: none"> International Standards for Phytosanitary Measures, numbers 1 (2006), and 6 (1997) Proposed Action Plan for Invasive Alien Terrestrial Plants and Plant Pests, Phase 1 (2004), Section 3.2.1 Action Plan for Invasive Alien Terrestrial Plants and Plant Pests, Phase 2—Proposed Implementation Plan (2005), Section 4.2.2
The Agency verifies and records the information derived from the pest surveys on invasive alien species that it undertakes. The Agency records, analyzes, and uses performance information on all of its actions, results, and decisions concerning the Plant Health Program as a whole.	<ul style="list-style-type: none"> International Standards for Phytosanitary Measures, Number 6 (1997) International Standards for Phytosanitary Measures, Number 20 (2004) Treasury Board of Canada Secretariat, Policy on Information Management (2007), elements 5 and 6 Treasury Board of Canada Secretariat, Policy Framework for Information and Technology (2007), Element 3

Audit work completed

Audit work for this chapter was substantially completed on 25 April 2008.

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 4. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
<p>Conducting pest surveys</p> <p>4.45 The Canadian Food Inspection Agency should develop and implement a formal, risk-based approach to pest surveys. The approach should link identified risk of existing and potential pests and diseases with the priority of the survey. It should also ensure that the protocols for the conduct of pest surveys are followed and that survey data are accurate and reliable. (4.32–4.44)</p>	<p>The Agency agrees with this recommendation. The Agency will examine ways in which pest surveys can be prioritized in a more formal manner to better balance trade and commerce needs with the identification of new and existing pests and diseases. Currently, pest survey design and prioritization are based on comprehensive pest risk assessments. As well, the progress and outcomes of the surveys are monitored informally during the course of the survey season. The Agency will align the conduct of surveys under a broader quality management system for the Plant Health Program, which will better support accuracy and reliability of survey data.</p>
<p>Working with the Canada Border Services Agency</p> <p>4.91 To meet its plant protection mandate, the Canadian Food Inspection Agency, in collaboration with the Canada Border Services Agency, should formally define the performance information it requires from CBSA, and it should develop an action plan for obtaining and monitoring the required information. (4.80–4.90)</p>	<p>The Canadian Food Inspection Agency and the Canada Border Services Agency agree with this recommendation, as close cooperation between CFIA and CBSA is necessary for both agencies to fulfill their responsibilities under their respective mandates. CFIA will develop a protocol with CBSA that clearly outlines necessary information on the delivery of CFIA programs at border points. CFIA will then engage CBSA to develop an action plan to obtain the required information.</p>

Recommendation

Response

Improving risk management of the Plant Health Program as it relates to imports

4.99 The Canadian Food Inspection Agency should implement quality management systems to provide management with assurance that the Plant Health Program, as it relates to imports, is designed to effectively manage risks to Canada's plant resources and that it operates as intended. (4.97–4.98)

4.103 The Canadian Food Inspection Agency should complete its assessment of possible information management and information technology support for the Plant Health Program, and it should identify options for funding those needs. (4.100–4.102)

4.109 The Canadian Food Inspection Agency should define the required level of science, policy, and operations necessary to fulfill its plant protection mandate as it relates to imports. It should then determine the level of funding needed to carry out these responsibilities. (4.104–4.108)

The Agency agrees with this recommendation. CFIA will work toward implementing a broader quality management system within the Plant Health Program similar to those in place for other CFIA programs, which will better provide management with assurance that the import component of the Plant Health Program is designed and operates as intended. The quality management system and ongoing national training program will build upon the updated national policies and procedures as outlined in the *Plant Health Import Inspection Manual*.

The Agency agrees with this recommendation. CFIA has successfully implemented a consistent approach to assess information management and information technology needs across the Agency. As part of the approach, CFIA is working toward identifying and meeting the business needs of the Plant Health Program as it relates to imports. The Agency will identify options for funding its overall information management and information technology priorities.

The Agency agrees with this recommendation. As a party to the International Plant Protection Convention (IPPC), CFIA is recognized as a leader internationally for its standards, policies, regulations and initiatives, based on scientific risk assessments. Canada, similar to all countries, is affected by the increased complexity of plant pest risk pathways. CFIA recognizes the need to continuously review and assess its science, policy and operational requirements to update its approach underlying the Plant Health Program. A review is currently being conducted on the Invasive Alien Species (IAS) Program, which is a component of the Plant Health Program. The results of this review as well as other activities will identify the level of science, policy and operational activities and associated funding needs of the import component of the Plant Health Program.

Report of the Auditor General of Canada to the House of Commons—December 2008

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DECEMBER

Report of the
**Auditor General
of Canada**
to the House of Commons

Chapter 5
Managing Information Technology Investments—
Canada Revenue Agency



Office of the Auditor General of Canada



2008



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Canada Revenue Agency



Office of the Auditor General of Canada

The December 2008 Report of the Auditor General of Canada comprises Matters of Special Importance—2008, Main Points—Chapters 1 to 8, Appendices, and eight chapters. The main table of contents for the Report is found at the end of this publication.

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Chapter

5

Managing Information Technology
Investments

Canada Revenue Agency

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Managing Information Technology Investments

Canada Revenue Agency

Main Points

What we examined

The Canada Revenue Agency collects some \$346 billion in taxes annually on behalf of the Government of Canada, the provinces (except Quebec), the territories, and certain First Nations governments. Processing up to 3.0 million computer transactions per hour, the Agency maintains some of the largest databases in the government and spends about \$500 million annually on information technology (IT) systems, of which \$129 million is recovered from the Canada Border Services Agency. It is currently pursuing a complex set of strategies to transform its business, including increasing the interactive nature of its systems to improve both its own administration and its relations with taxpayers.

We examined whether its systems and practices provide the Agency with reasonable assurance that IT investments are well managed and consistent with its business objectives. We looked at the management framework for IT investments, including the processes for deciding which IT-enabled business projects to invest in and for monitoring progress to ensure that the investments continue to support the Agency's objectives. We examined eight projects to determine whether they had appropriate governance and accountability structures, a comprehensive business case, and adequate management of risk. We also looked at whether expected benefits from the projects were clearly defined, adequately tracked, and properly reported.

Why it's important

The Canada Revenue Agency's information technology systems are critical to its ability to administer taxes, benefits, and related programs and to ensure compliance with federal, provincial, and territorial tax laws. An organization as large and complex as the Agency needs to ensure that it invests in the right IT systems and applications and that its investments deliver the intended value. Its systems are also the main vehicle the Agency has for improving the efficiency and cost-effectiveness of its tax administration activities, and for improving client and taxpayer services.

What we found

- The Agency has made a number of changes in the past two years to significantly improve the management of its IT investments. Through self assessments and internal audits, it has identified needed enhancements. For example, it has implemented a strengthened process for approving and monitoring new project proposals, including a more rigorous project management framework. Since most large IT investments are long-term in nature, and some aspects of the Agency's policies and practices are quite recent, it is too early to evaluate how well the new policies and procedures are working.
- Most of the projects we audited did not follow the Agency's own established project management guidance. Furthermore, in six of the eight projects we examined in detail, we found serious project management problems including business cases missing key elements, significant time delays, and in one case, an end product that was not accepted by the intended user. The Agency believes that its new project management framework will address many of the shortcomings we identified, but it needs to verify this by carrying out future reviews.
- There are still some gaps in the governance of IT investments that need to be addressed. While the Agency recently implemented an improved framework for selecting and managing individual IT projects, it has not enhanced to the same degree its ability to manage its IT investments as a portfolio. Better portfolio management processes and information would help the Agency ensure that its investments are appropriately balanced between those that, for example, renew aging systems, improve compliance efforts, or improve client service. Better information would also help it to determine whether the overall risk of its IT investments is acceptable and whether the initiatives outlined in the Agency's IT investment strategy have been achieved.

The Agency has responded. The Agency agrees with all of our recommendations. Its detailed responses follow each recommendation throughout the chapter.

Introduction

5.1 The Canada Revenue Agency (CRA) is one of the largest federal government organizations. Its responsibilities include assessing and collecting federal taxes, such as income taxes, the goods and services tax/harmonized services tax (GST/HST), and other taxes. The Agency's mandate also includes

- administering income tax and some sales tax regimes for nine provinces, three territories, and numerous self-governing First Nations;
- administering benefits and related programs for various levels of government; and
- providing services to other federal agencies, such as verifying and collecting employment insurance premiums and Canada Pension Plan contributions.

5.2 In addition, the Canada Revenue Agency provides information technology (IT) services and support to the Canada Border Services Agency (CBSA). After the customs function of the Canada Customs and Revenue Agency (CCRA) was transferred to CBSA, the two agencies have continued to share a common network and infrastructure. Under a Memorandum of Understanding (MOU) between CRA and CBSA, it is CRA's responsibility to operate and maintain the network and infrastructure.

5.3 CRA relies heavily on its information technology systems to administer the federal and provincial income tax acts, deliver benefits programs to Canadians, and meet its other clients' needs. Over the years, except for two major incidents that affected electronic filing and accessibility to account information, those systems have been reliable.

5.4 According to its records, in the 2007–08 fiscal year, CRA spent about \$509 million on IT activities and employed about 4,000 IT professionals. CRA used about \$175 million to develop new systems and to maintain or upgrade existing systems. The remaining \$334 million was used to operate existing systems and to provide IT services needed to support CRA business.

5.5 Under the MOU between the two agencies, CRA bills CBSA for the services it provides. In the 2007–08 fiscal year, billings amounted to about \$129 million of CRA's total operating costs. The IT Branch in CRA supports an IT infrastructure consisting of 1,200 servers, 6 mainframes, 2 data centres, more than 450 applications, and close to 56,000 desktop computers and laptops.

5.6 The Canada Revenue Agency's demand for IT investments always outstrips available funding, requiring it to balance competing priorities. Those priorities include modernizing existing systems, some of which are more than 20 years old, and developing new systems that are more efficient and reliable or that would better serve taxpayers and benefit recipients. In today's world, delivering individual IT projects on time and within budget is no longer enough. Today's large organizations need management processes that help them to choose their IT investments wisely and to realize the intended value of those investments.

Focus of the audit

5.7 During the audit, we looked at the overall management of the Agency's IT investments and key aspects of project management. We examined the Agency's management systems and practices against widely accepted industry standards, its compliance with its own policies and procedures and with other relevant guidance.

5.8 The audit assessed whether the Agency's systems and practices provide it with reasonable assurance that it is managing its IT investments well, and that they are in line with its business objectives.

5.9 More details on the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendations

Making the right investments

Management practices for information technology investments have improved significantly

5.10 We expected the Canada Revenue Agency to have adopted a management framework that included appropriate policies and procedures to provide reasonable assurance that existing **information technology investments** as well as proposed new ones will support corporate and program priorities.

5.11 We found that the Agency has a sound framework for choosing and managing IT investments. The framework, which has recently been significantly improved, focuses on choosing and managing individual IT projects. To a lesser degree, the framework deals with the management of all the Agency's IT investments.

5.12 In early 2006, after concerns with some large IT projects were identified, the Agency made significant changes to its management

practices. We reported on the Agency's concerns about the Integrated Revenue Collection system, in Chapter 8 of our May 2006 Report and Chapter 3 of our November 2006 Report. The changes included the creation of the Resource and Investment Management Committee (RIMC) to provide better oversight of all large projects, including IT, and the development and implementation of an Agency project management policy to better address its own specific needs. In our view, creating RIMC, with its defined roles and responsibilities, is a significant improvement in the oversight of major investment projects, including IT investments.

5.13 To oversee the management of CRA, including its annual IT investments, the Agency employs a framework of senior committees. Its Board of Management oversees the Agency's organization and management. Since December 2006, the Board has been approving plans for any IT projects exceeding \$20 million and reviewing the funding and scope of those projects. The Agency has developed a format for project briefings and has started giving the Board of Management quarterly project reports about significant projects.

5.14 The Agency Management Committee determines the Agency's annual budget for IT investments, decides how that budget will be distributed throughout the organization, and selects significant system development projects.

5.15 The following three subcommittees, all of which are chaired by the Commissioner, report to the Agency Management Committee:

- The **Strategic Directions Committee** looks at strategic and business development, including long-term strategic plans.
- The **Operations Committee** oversees the development and delivery of the Agency's core business programs and discusses issues, including IT-related issues that may have an impact on the Agency's day-to-day operations.
- The **Resource and Investment Management Committee** (RIMC) is responsible for regularly monitoring of significant development projects; these projects are significant because they represent an investment of at least \$1 million in one year. The RIMC makes recommendations to the Agency Management Committee about whether to proceed with project development or to alter the projects' plans. For example, it may recommend changing the amount of funding allocated to projects, changing project deliverables, or halting projects that do not meet certain requirements.

5.16 Recently identified improvements. In early 2008, the Resource and Investment Management Committee reviewed the governance structure for overseeing the management of all investments and its own practices for managing IT. The RIMC found that it lacked certain critical information for decision-making and decided the process for monitoring IT projects needed improvement.

5.17 The RIMC recommended that the Agency Management Committee approve a strengthened oversight framework for project approval, planning, and execution to

- clearly articulate a link to Agency priorities and corporate strategies;
- ensure that there is a clear understanding of the business problem or opportunity and the associated risks from a business perspective;
- ensure that the objectives, expected outcomes, and success criteria are clearly articulated at the outset of the project;
- ensure that all possible solutions/alternatives are considered and evaluated;
- allow for better up-front planning and scoping, and thereby reduce the likelihood of cost and schedule over-runs; and
- confirm that the expected outcomes/benefits have been realized.

5.18 Taking these comments into consideration, the Agency's Management Committee approved a more rigorous process for approving and monitoring new project proposals.

5.19 The previous project management framework required only four steps; the new framework requires six steps (Exhibit 5.1). Managers must now satisfy the requirements of two steps before incurring significant costs to develop a full business case. The new project-approval process also includes one step requiring project sponsors to identify the expected benefits and, after implementation, confirm that they have realized these benefits. These changes, once fully implemented, should improve the monitoring of IT development projects by the RIMC.

5.20 This strengthened process was approved by the Agency Management Committee in February 2008. At the time of our audit, it was too early to review the implementation of these changes. Many IT projects take years to complete, and it will take time to determine how well the Agency's new governance framework for managing IT investments is working. In addition, in the coming months, the RIMC Secretariat will need to work hand-in-hand with project sponsors, to issue appropriate guidance, and to provide suitable training that will

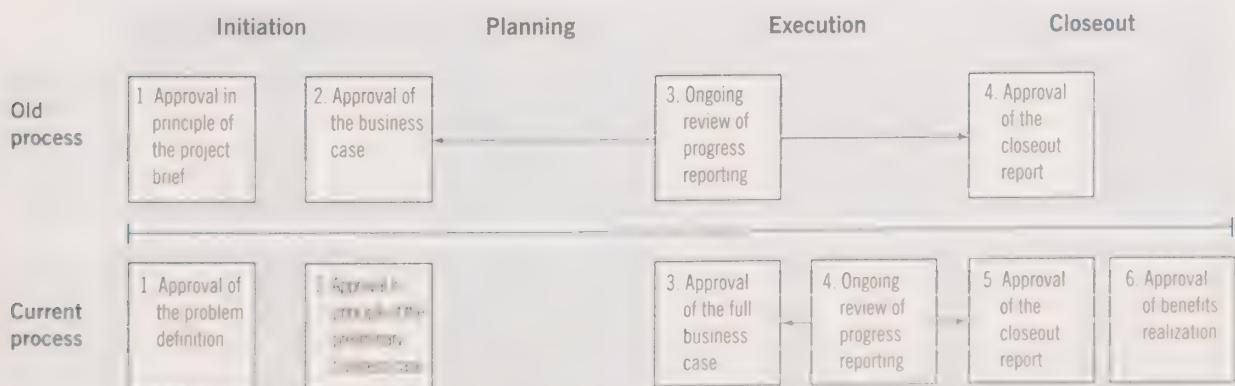
ensure the consistent and appropriate implementation of the new project management framework.

5.21 The development of a comprehensive project management policy and framework is not enough to ensure that the desired results will be achieved. As described later in this chapter, when we examined four key aspects of project management, we found that established guidance may not always be followed. The Agency needs to take appropriate steps to ensure that this new project management regime is being respected by the responsible project teams.

5.22 Recommendation. Within two to three years, the Agency Management Committee should ensure that it receives and reviews information on how well its new project management policies, procedures, and guidelines are being implemented and on how well they are being complied with throughout the Agency.

The Agency's response. Agreed. Within two or three years, the Canada Revenue Agency (CRA) will undertake and complete an assessment of how well the enhanced project approval and monitoring framework is being implemented and complied with across the Agency. This kind of periodic review is performed as a matter of course by the CRA. In fact, such a review led to the above-noted improvements to the project oversight framework, which were approved by the Agency's Management Committee in early 2008. These changes included the development of new training and information products to increase the awareness of the new project management regime, as well as more detailed guidelines and templates to facilitate compliance.

Exhibit 5.1 Steps have been added to the project management process to improve oversight



Source: Adapted from the Canada Revenue Agency

A more strategic approach is needed to manage IT investments

5.23 Large organizations must have management practices in place that ensure they focus on current and planned IT investments that best contribute to meeting their business objectives, with an acceptable degree of risk and at reasonable cost. These management practices, referred to as portfolio management, are widely accepted as best practices for the governance of IT investments. Organizations that use portfolio management practices go beyond making decisions on a project-by-project basis and consider the appropriateness of their portfolio of IT investments as a whole. The practices that organizations use are similar to those used by individuals to manage their investment portfolios.

5.24 During our audit, we examined the Agency's systems and practices that would support portfolio management, including the following four key elements:

- a strategic investment plan;
- information about the portfolio, including its sustainability and risks;
- clearly defined portfolio categories and objectives; and
- evaluation criteria for choosing investments.

5.25 We found that the Agency has some processes and information sources that address elements of portfolio management. In some areas, the Agency needs to complete actions that are already under way; and, in two areas, it needs to supplement existing practices.

5.26 As noted previously, the senior management committee structure includes processes for deciding which projects to select, determining project management risks, and monitoring IT project performance. The Agency has other activities and practices related to portfolio management, including

- a management culture that promotes the use of cross-functional teams and the adoption of an Agency-wide perspective;
- semi-annual RIMC meetings (known as “banking days”) with all Agency branches to assess long-term and short-term priority needs; and
- annual senior management retreats to review and discuss strategic initiatives, programs, and funding priorities.

5.27 Multi-year strategic investment plan. In order to manage its portfolio of IT investments, the Agency requires information on how IT investments will meet the business needs of the future. We expected to find that the Agency documented this information in a long-term, strategic IT investment plan. More specifically, we expected the Agency to have a plan consistent with the recent Treasury Board Policy on Investment Planning—Assets and Acquired Services. That policy is intended to ensure that departments and agencies allocate resources in a manner that clearly supports program outcomes and government priorities. While the Agency is not required to follow this policy, it has recognized the need to be consistent with the practice used by other departments and agencies.

5.28 The policy requires the development of an annual investment plan that includes information on the effects of the proposed investment and information on

- the existing portfolios of assets and services and performance improvements as well as gaps, trade-offs, and residual risks;
- the intended, broader short-, middle-, and long-term ability of the department to achieve outputs and outcomes; and
- external clients and stakeholders, other government departments, and the federal government as a whole.

5.29 We found that the Agency is developing a multi-year strategic investment plan—a deficiency that the Agency has identified through its own self-assessment. It has acknowledged that “this plan is important to ensure that systems and applications have the capacity to meet current and future requirements, in a timely and cost-effective manner. The plan would also identify sustainable applications, applications in need of renewal and an action plan to address the business needs over a 15-20 year time horizon.”

5.30 The IT branch has started to work with some of the operating branches to help them assess their long-term business needs. To date, work with the Legislative Policy and Regulatory Affairs branch has been completed, and the IT Branch is currently working with the Appeals Branch.

5.31 Sustainability and risks of current IT applications.

To effectively manage other aspects of its portfolio, we expected the Agency to have information about the sustainability and risks associated with its existing suite of IT applications and the future business needs that are to be addressed through the development of IT solutions. We found that the Agency has much of this

information and that it is taking action to acquire the information it currently lacks.

5.32 Having a complete list of all IT applications and knowing the associated risks is essential to managing IT investments as a portfolio. We expected to find a complete list of all current IT applications as well as an analysis of their sustainability and any other specific risks. We found that the Agency has made good progress in compiling a list of the IT applications that are currently in use. The Agency's IT branch divides these applications into three separate categories:

- those operated by the IT branch;
- those operated by branches at Headquarters; and
- those operated at the local level, a part of the list that is not yet complete.

5.33 The Agency has assessed the sustainability and the risks associated with the applications that are managed by the IT Branch. However, this has not been completed with the same level of rigour for the applications being maintained by the headquarters operating branches. During our audit, the Agency was still compiling a complete inventory of local applications and had yet to fully assess the associated risks. Although the financial investment in local applications is small, there are potential risks that are significant from a governance perspective.

5.34 The following text box provides more detail on the sustainability of Agency applications and other risks associated with these applications. It also illustrates the challenges facing the Agency's senior management when making choices about IT investments.

National Applications	The Agency has assessed the sustainability of national applications. It recently classified 141 out of the approximately 450 applications currently in use by the IT Branch as poorly sustainable because their database platforms or programming language are being phased out and will no longer be used for new applications. The majority of these applications are rated as "high business priority." Because the renewal of these applications will require a significant investment in financial and human resources, managing this renewal is an area of increasing importance.
Applications Controlled by Headquarters' Branches or Regions	The Agency has identified 58 applications that support national programs that are operated by branches other than IT. These applications are generally smaller than those operated by the IT branch; they have evolved over time and the Agency has not assessed their sustainability or their risk profile. Because they are not subject to ongoing IT branch governance, the Agency does not know how well they align with its application standards or if they will need to be replaced by national IT branch applications.

Local Solutions

There are more than 730 applications known in the Agency as “local solutions.” In response to a recent internal audit, the Agency is currently assessing these local solutions for sustainability and risks to the Agency’s operations. Because some may be high risk (for example, those that allow Agency employees to download information from national databases), the Agency needs to ensure that proper controls and accountability are in place. Many of the local solutions are believed to meet needs that national applications do not address, so the Agency is analyzing them to determine what, if any, changes should be made to national applications.

5.35 Investment portfolio categories and objectives. As noted in the previous section, the Agency faces some significant challenges related to the sustainability of its existing IT applications. In addition, the Agency has identified the replacement of one of its data centres as a significant risk to its operations. The Agency has recognized that its current resources may be insufficient to undertake all of the necessary IT investments. Accordingly, it will have to make difficult choices about the timing and prioritization of the investments that it chooses to undertake.

5.36 Portfolio management will help the Agency’s senior management make strategic decisions about where to invest its IT resources, by using categories that are meaningful to the Agency, and will give senior management an overview of the composition of its portfolio of investments. For example, the Agency’s investment portfolio could be categorized in the following way:

- Investments that sustain value (existing systems) or those that create value (new systems)
- Investments that make revenue administration more effective (better information for compliance management) or investments that reduce costs or investments that are designed to improve client service
- Investments that are high, moderate, or low risk

5.37 Organizations that adopt portfolio management as a decision-making tool monitor and review the composition of their portfolio periodically, generally once or twice a year. They want their portfolio to reflect an appropriate balance of investments in each category. In some cases, organizations establish ranges they consider appropriate for each category in the portfolio and assess whether the actual portfolio falls within the established objectives. Regardless of how organizations use portfolio management information, in our view, having this information enhances an organization’s ability to make IT investment decisions.

5.38 We found that the Agency's portfolio management information is not formally categorized and does not include established objectives for each category, both of which would help senior management make strategic decisions about IT investments.

5.39 Clear evaluation criteria. The Agency's evaluation criteria need to be clearly defined to help it prioritize and select IT investments within each category of its portfolio. Evaluation criteria would include factors such as how well proposed investments align with the Agency's strategic objectives, what the benefits are for the Agency, and what the overall project risks are. Having clear criteria will lead to more consistent and transparent decision making by the Agency.

5.40 The Agency has recently started asking project teams to identify and rank the reasons why their projects are important. However, we found that because the evaluation criteria are not clearly documented, it is not always possible to demonstrate why one project is chosen and another is not. Agency officials told us that given the complex and varied nature of their mandate and organization, they have not been able to develop these evaluation criteria.

5.41 In summary, we found that, in the past two years, the Agency has significantly strengthened its governance framework for managing individual IT projects. It has also taken steps to acquire reliable information about the sustainability of its current suite of IT applications and develop a long-term view of its investments. These initiatives need to be completed. In addition, we found that the Agency could improve its decision making by periodically analyzing its IT investments, according to the various categories in its portfolio, and by clarifying the evaluation criteria that it uses to choose from competing IT investment proposals.

5.42 Recommendation. To strengthen its governance of IT investments and provide management with better information for decision making, the Canada Revenue Agency should

- complete its inventory of IT applications, including assessing their sustainability and associated risks;
- finish developing its multi-year strategic investment plan;
- define appropriate categories for the IT investment portfolio and report the results periodically to senior management; and
- document clear evaluation criteria for prioritizing and selecting IT investments for the portfolio.

The Agency's response. Agreed. The Canada Revenue Agency (CRA) will complete its inventory of IT applications (including an assessment of their sustainability and associated risk) and will finish developing its strategic investment plan, making every effort to ensure consistency with the Treasury Board Policy on Investment Planning—Assets and Acquired Services. Although the CRA feels that senior management is already well-informed regarding the nature, purpose, and mix of major projects in which the Agency is investing at any given point in time, the introduction of a more formal strategic investment plan will provide an opportunity for the Agency to more clearly define, summarize, and report on the categorization of its current and planned investments.

Many factors must be weighed by senior management when deciding which projects to undertake, and in what order. Each decision is typically made in a unique context, and the criteria used to assess and compare the value and importance of proposed investments are chosen accordingly. The Agency will undertake to better describe that context through categorization of projects that are under way and proposed and to ensure transparency regarding the criteria applied to a particular decision.

A more comprehensive performance-reporting framework is needed

5.43 A comprehensive performance reporting framework is an essential element of managing IT investments in the Agency. We expected to find a performance-reporting framework that would enable the Agency to demonstrate that it manages its IT investments effectively and that it is making investments that will meet the organization's current and future objectives, at a reasonable cost and with an acceptable level of risk.

5.44 We found that the Agency monitors and reports on some aspects of the levels of service that the IT Branch provides to taxpayers. In addition, the Agency periodically reviews its information technology infrastructure, using benchmarks to compare its performance to organizations of similar size and complexity. The IT infrastructure was last reviewed in the 2003–04 fiscal year, and the most recent application review was done in early 2008.

5.45 At the project level, the Agency asked project management teams in early 2008 to start reporting on the realization of the expected benefits at the end of each project. In addition, the Agency reports to its Board of Management about the status of IT projects that exceed

\$20 million, and it recently started providing the RIMC Secretariat with quarterly updates on the individual IT projects that the RIMC is responsible for.

5.46 Although the Agency has improved its oversight and monitoring of information for individual projects, it provides limited performance information at the portfolio level. For example, it is not providing performance information on the

- achievement of initiatives outlined in the IT investment strategy,
- compliance with policies and standards,
- end-user satisfaction levels,
- overall success rate of IT projects, and
- level of risk in the IT portfolio.

5.47 Recommendation. The Canada Revenue Agency should develop more comprehensive performance information at the strategic level to help those responsible for managing and overseeing IT investments make more informed decisions.

The Agency's response. Agreed. The enhanced Agency project oversight framework, which was approved by the Agency's Management Committee in early 2008, introduced a number of measures that will help the Agency to develop more comprehensive performance information at the strategic level. These measures include, among other things: the requirement for a more robust performance measurement plan and evaluation strategy for every new project, ensuring that the objectives, expected outcomes, and success criteria are clearly articulated at the outset; a greater focus on risk identification and mitigation as part of the project business case and implementation plan; the introduction of quarterly performance "dashboard" reports for all corporately monitored projects (to supplement the more detailed progress reports that were already required to be submitted periodically); and the introduction of a new Benefits Realization Confirmation step at the end of each project. Taken together, these measures will enable senior managers to acquire a better understanding of the overall health and level of risk in the IT project portfolio, to better assess how well the Agency is achieving its strategic investment objectives, and to better gauge the overall success rate of IT projects.

Managing information technology projects

The Agency has not complied with its own guidance for managing information technology projects

5.48 An organization employs project management techniques to control and coordinate its activities, resources, time, and costs—in short, to ensure that projects deliver the value for which they were approved. Sound project management includes

- ensuring clear accountability for achieving specified outcomes;
- using appropriate controls to minimize risk;
- consulting key stakeholders, such as the project's users; and
- continuously monitoring projects to make sure they stay on track.

5.49 To determine whether the Canada Revenue Agency follows sound project management practices in managing IT investments, we examined eight Agency projects that were under development or had recently been completed at the time of our audit (Exhibit 5.2). We assessed whether the selected projects complied with Agency policies, guidelines, and procedures. We also evaluated each project against the following four criteria:

- comprehensive business cases comply with Agency guidance,
- quantified expected outcomes and benefits are adequately tracked and reported,
- appropriate governance and accountability structures exist, and
- risk management is adequate.

Although there are numerous aspects to project management, we selected the four criteria that, in our opinion, are most closely associated with an organization that wants to demonstrate that it is delivering the value the IT investments were designed to achieve.

Exhibit 5.2 IT projects selected for audit

Project	Branch	Description	Current Budget ¹	Spent by 31 March 2008	Schedule	Status
Compliance Systems Redesign (CSR)	Compliance Programs Branch	A major business transformation initiative designed to improve the Canada Revenue Agency's (CRA's) capacity to manage and deliver tax compliance programs	\$97.5 million	\$40.6 million	2002–11	In development
Network Services Enhancement Project (NSEP)	IT Branch—partially funded by the Canada Border Services Agency	A network upgrade project	\$7.9 million	\$7.1 million	2005–08	Operational
Business Intelligence and Decision Support (BIDS)	Assessment and Benefit Services Branch and Information Technology Branch	Created to define and implement a corporate approach and facility to deliver Business Intelligence solutions across CRA	\$50.2 million	\$40.0 million	2002–09	In development
Working Income Tax Benefit (WITB)	Assessment and Benefit Services Branch	A refundable tax credit for low income Canadians introduced in the 2007 federal budget—has a prepayment mechanism that begins in 2008 and involved modifications to the T1 assessing system, the benefits system, and related systems	\$4.5 million	\$2.7 million	2007–08	Operational
T2 Two-Dimensional Bar Coding	Assessment and Benefit Services Branch	Used to process computer-generated T2 corporation income tax returns	\$2.2 million	\$1.9 million	2004–06	Operational
Integrated Charities System/Charities Tracking System	Legislative Policy and Regulatory Affairs Branch—a 2004 Treasury Board submission provided the funding for the system	An IT-enabled project to help the charities directorate better manage documents and track work-flow—part of an initiative to reform Charities administration at CRA	\$3.7 million	\$3.9 million	2004–(ongoing)	In development

Exhibit 5.2 IT projects selected for audit (cont.)

Project	Branch	Description	Current Budget ¹	Spent by 31 March 2008	Schedule	Status
Taxpayer Relief Registry Redesign	Appeals Branch	Being redesigned to improve the reporting functions and consistency with which taxpayer relief requests are processed	\$2.7 million	\$1.1 million	2005–10	In development
Portageur Service Pilot	Assessment and Benefit Services Branch	Allows clients to verify their personal identification data with Veterans Affairs and authorizes that Department to share the information through an electronic transfer with the Canada Revenue Agency The shared authentication allows clients to access their online tax services through a secure and private channel	\$0.4 million	\$0.4 million	2005–06	Operational

¹Budget for development costs only—does not include ongoing operations

5.50 Before developing a project management policy in 2006, the Agency used the Enhanced Framework for the Management of Information Technology Projects that was developed by the Treasury Board of Canada Secretariat. Of the eight projects we audited, seven began before the Agency implemented its new project management policy. However, the four criteria we have selected for review were part of the enhanced framework as well as being part of the best practices for IT management that existed at the time. Since they are still relevant and are important elements of the Agency's current policy framework, we expected the Agency to meet our criteria. It should be noted that meeting the criteria does not necessarily guarantee that the projects will be successful and meet their business expectations. However, they would be better managed and have a greater chance of being successful if the criteria are met.

Only two of the eight audited projects met all four criteria

5.51 While all of the projects partially met some of the criteria, only two of the eight projects met all four criteria (Exhibit 5.3).

5.52 Business cases. Our first criterion involves making a sound business case, which provides managers with the information they need to decide whether a project should proceed. Making a business case is a critical early activity in the lifecycle of an IT investment.

Exhibit 5.3 Six of eight projects did not meet all criteria

Audit criteria	Project CSR	Project NSEP	Project BIDS	Project WITB	Project T2 Bar coding	Project Charities	Project Tax Relief	Project Portageur
Comprehensive business case in compliance with best practices	●	●	●	○	○	●	●	●
Appropriate governance and accountability structures	●	●	●	○	○	●	●	○
Adequate project management based on risk management	○	●	●	○	○	●	○	○
Clearly defined benefits that are adequately tracked and reported	●	●	●	○	○	●	●	N/A

○ The criterion attributes were met over the life of the project.

● The criterion attributes were partially met over the life of the project.

■ The criterion attributes were not met over the life of the project.

N/A - Not assessed

5.53 Of the eight projects, only two included business cases that met our expectations, while four others partially met our expectations.

5.54 Two projects did not meet our expectations:

- Two included little or no information about the organization's financial or human resource capacity to deliver the project.
- Two business cases did not specify quantified benefits.
- One case did not explain how the project would contribute to transforming and improving business processes.
- One case contained no evidence that internal and external users had been consulted.

5.55 The Business Intelligence and Decision Support (BIDS) project was among those with business cases that did not meet our criterion. To illustrate our concern about the Agency's compliance with guidance related to making business cases, we have included the following case study. Some of the information reported in this case study was derived from the work performed by the Corporate Audit and Evaluation Branch and reported in its January 2008 report on the BIDS project.

Business Intelligence Decision Support

The Business Intelligence Decision Support (BIDS) project illustrates how a flawed business case increases the risk that the project will not meet its business expectations.

The BIDS project began in 2002. Its purpose was to implement a corporate approach to consolidating data from widely dispersed national systems within the Canada Revenue Agency to make the data easier to access and use. The project was initially divided into three distinct phases. We found that both the original business case for Phase 1 and the 2006 business case for Phase 2 failed to meet most of our criteria for these documents.

We found that the business cases for phases 1 and 2 excluded significant elements, such as consideration of annual maintenance costs of more than \$6 million and the costs associated with analyzing and inputting data into a corporate data warehouse.

We also found that the business cases did not have clearly defined milestones for all three phases and that \$46 million of the total project funding (\$50.2 million) was not linked to key deliverables.

In addition, the business cases for phases 1 and 2 did not indicate how data quality issues would be addressed. In a project with as many users as BIDS, data quality is a significant issue that needs to be fully understood from the outset.

5.56 Governance and accountability. At the organizational level, governance of information technology requires an appropriate management framework to help ensure that all such technology contributes to achieving an organization's objectives. At the project

level, governance focuses on delivering projects that will help organizational units meet their business objectives, at acceptable costs and level of risk. Managers of the Agency's branches and regions are responsible for putting appropriate project management structures in place.

5.57 Overall, only three of the eight projects we audited met our governance criterion. Four other projects partially met our criterion, and one project did not meet our criterion. A common deficiency in these projects was the lack of clearly defined roles and responsibilities for managing the project.

5.58 To illustrate our findings about project governance and accountability, we have included a case study of the Compliance System Redesign project. Specifically, the case study illustrates how the new governance structure has had a positive impact on this large project.

Compliance System Redesign

The Compliance System Redesign project is an example of a project that lacked appropriate governance and oversight for a number of years. This has contributed to significant project delays.

The Compliance System Redesign project was originally part of the Business Integration Systems Support Infrastructure (BISSI). The BISSI was a larger initiative that included a large suite of IT systems designed to help the Compliance Programs Branch (CPB) manage its programs more efficiently and to act as an Agency-wide case management system.

The project was initiated and approved by the Resource Project and Review Committee (RPRC), the predecessor to the Resource and Investment Management Committee (RIMC), in February 2002. The project had initial funding of \$3.8 million, a total estimated project cost of between \$23 and \$31 million, and a forecasted completion date of 2007.

The first full business case for this project was presented to the RIMC in March 2006 after more than \$20.4 million was spent. This business case was approved by the Board of Management in December 2006. At that time, the initiative was split up into two projects. In December 2007, the two projects were reunited. Finally, in May 2008, after \$40.6 million had been spent, the RIMC recommended a revised business case for approval to the Agency Management Committee. The revised case clearly explains the rationale for the project, the project's design, and how the project would meet the Agency's business needs. It also included a forecasted completion date of 2011 and a total estimated cost of \$97.5 million. It should be noted that the reported costs were not all attributable to the development of the business case; the project team did build some of the core functionality required by the project at the same time.

We rated this project as "partially met" for governance and oversight because we found that oversight has been more rigorous since RIMC was created.

5.59 Risk Management. An important component of project management is risk management, which involves

- assessing the potential impact of risks,
- continuously monitoring those risks, and
- dealing with potential risks before they arise.

5.60 For an IT project to succeed, its risks must be identified and mitigated. Five of the eight projects we audited met our risk management criteria, and three projects partially met it.

5.61 To illustrate our findings about risk management, we have included a case study of the Integrated Charities System project.

Integrated Charities System

The Integrated Charities System (ICS) is an example of a project that identified the risks at the outset but did not adequately manage them throughout the project's development. For example, the risk that the solution would not be accepted by the end users was identified, but not mitigated. This resulted in the development of an application that did not meet the needs of the Charities Directorate, which it was designed to serve.

In 2004, the Canada Revenue Agency began a project to provide the Directorate with a software application that would improve the way it managed documents and tracked workflow.

We found that this project's business case did not reflect a number of the requirements of CRA policy. For example, the business case did not clearly indicate how the application would contribute to meeting the business or operational needs of the Agency and the Charities Directorate.

While the business case included a number of qualitative benefits, it did not define any quantitative benefits that the system was to produce, nor did it identify the full lifecycle costs associated with the application. In particular, it did not include the cost of ongoing maintenance (which turned out to be substantially more than the IT Branch could afford).

The Directorate told us that officials did not know at the outset what functions the system should have been able to perform to improve business processes. Until the system was almost completed, the Directorate also did not understand what it would look like. These factors all contributed to Agency's inability to deliver this project successfully.

In early 2007, the IT Branch delivered the system to the Charities Directorate. With the Agency reporting that almost \$2.6 million had been invested in the system, the Directorate deemed the project as being unable to meet its needs. The Directorate then asked branch personnel to design its own project for the Directorate (called the Charities Tracking System), to better meet its business needs. This process was ongoing at the time of our audit, and the project is not expected to be completed for at least another year.

5.62 Benefits. Specific, quantifiable benefits can serve as milestones or indicators for measuring a project's success and can provide a structured way to track progress. Milestones are points at which an organization can determine whether a project is straying from its original goals and can prompt management to correct any problems.

5.63 We expected that, for each project we reviewed, the Agency would have specified the expected benefits and business outcomes. We note that if an organization does not specify outcomes at a project's outset, it is not possible later to assess that project's performance objectively. One cannot assess whether a project has actually performed against initial expectations if these expectations were never specified.

5.64 Overall, only two of seven projects that we audited met our criteria of specifying expected benefits or outcomes. We could not assess the eighth project for this criterion because it was part of a government-wide initiative that the Agency developed for the benefit of other entities.

5.65 To illustrate compliance with Agency guidance on identifying, measuring, and assessing benefits, we have included a case study of the T2 Two-Dimensional Bar Coding project.

T2 Two-Dimensional Bar Coding Project

The T2 Two-Dimensional Bar Coding project involved placing bar codes on computer-generated T2 corporate income tax returns. It is an example of a project that benefited from a strong planning process that included setting measurable targets and tracking and reporting benefits. The project also built on experience gained from an earlier bar coding project for T1 forms.

At the outset, the project team clearly defined the increased efficiency benefits that the system was expected to deliver and held bi-weekly meetings to discuss the project's status and measure progress against milestones.

The team delivered the project on time, and it met or surpassed the benefits specified during the planning process. The project's benefits included better data quality, because the system eliminated keying errors, as well as more efficient, less expensive, and faster processing.

5.66 The Agency's new project management policy and practices may have prevented some of the problems we identified during our audit. However, we believe project teams need to adhere to the Agency's recommended policies and practices more rigorously to provide senior management and the Board of Management with greater assurance that all future IT projects comply with the Agency's guidelines for business cases, for management of outcomes and benefits, and for appropriate governance and risk management regimes.

Project review procedures need to be strengthened

5.67 Over the last 12 years, other federal governments and the private sector have studied the challenges facing large IT projects and the reasons why so many have not delivered the intended value to the organization. We found that, in response to the high failure rate of surveyed IT projects, several other governments—notably in the United Kingdom and Australia—have adopted new methodologies for monitoring large IT projects as well as a framework for conducting independent third-party **gate reviews**.

5.68 Our review of eight IT projects indicates that the monitoring of IT projects in the Agency needs to be strengthened. We expected the Agency to have implemented gate reviews or other similar reviews to examine projects at critical stages: initiation, planning, development, and implementation.

5.69 We found that the Agency has implemented certain internal review procedures that reduce the risk of project failure. For example, the RIMC Secretariat reviews all documentation from the project teams and challenges the information provided. Agency officials told us that the documents required for project approval are reviewed extensively by the IT branch. In addition, the RIMC has occasionally asked the Corporate Audit and Evaluation Branch to provide an independent review of the progress of certain projects, generally when they appeared to be experiencing difficulties.

5.70 In our opinion, these procedures are sound but do not replace scheduled gate reviews by independent subject matter experts. In addition to existing procedures, gate reviews are particularly important for high-risk projects, and they need to be conducted by teams of IT subject matter experts, internal auditors, or private independent contractors.

5.71 Recommendation. The Canada Revenue Agency should strengthen its review procedures, including requiring that high-risk IT projects are independently assessed at specific intervals during their lifecycle.

The Agency's response. Agreed. The Canada Revenue Agency will examine ways to further strengthen its review procedures, including the engagement of an independent party to assess high-risk IT projects at critical stages during their lifecycle. The requirement, timing, and scope of such independent reviews will be established at the beginning of the project by the approval authority.

Gate reviews—Projects are reviewed at key decision points by a team of experienced people who are independent of the project team. The purpose of these reviews is early detection of problems that could threaten the success of projects.

Conclusion

5.72 In our opinion, the Canada Revenue Agency's systems and practices for selecting and managing its information technology investments, as currently designed, provide management with reasonable assurance that it is managing those investments well and that the investments are in line with the Agency's business objectives. However, since some of the key systems and practices are new and IT projects often take many years to complete, we were not able to determine whether the systems and practices were delivering their intended benefits.

5.73 Although we found a number of deficiencies in the management of IT projects that were started before the latest improvements were introduced, the Agency's new systems and practices are designed to reduce the risk that such problems will occur in the future. The Agency will need to monitor these new systems and practices to ensure that they are being implemented as designed and that the intended results are being achieved.

5.74 We believe that the Agency needs to strengthen its governance framework for IT to better support the management of its portfolio of IT investments. We found that the Agency has some portfolio management practices and is considering adopting others. Strengthening portfolio management would allow the Agency to provide better oversight of its information technology investments and would help to ensure that it is selecting projects that best meet its business objectives, with an acceptable degree of risk and at a reasonable cost.

5.75 We found problems in the way six of the eight projects we selected for review were managed. Although clear project management expectations existed in the four areas we examined, they were not all complied with. The deficiencies we found resulted in some significant delays and, in one case, an IT project that was not accepted by the branch or implemented.

5.76 Our findings illustrate that having established systems and practices is not enough. Project teams must respect those systems and practices, and oversight bodies need to regularly monitor whether project teams are following established policies and procedures and whether their progress is on track.

About the Audit

Objective

The objective of our audit was to determine whether the Canada Revenue Agency's systems and practices provide it with reasonable assurance that it is managing its information technology IT investments well, and that they are in line with its business objectives.

Scope and approach

We examined how well the Agency manages its IT investments, using recognized best practices for IT management as well as other best practices the federal government has identified. The scope of the audit included all Agency responsibilities, including its governance and management frameworks. We only reviewed those management practices and procedures within the Agency.

The audit assessed whether the Agency had management practices in place to align its IT investments with its business objectives, and whether those practices demonstrate that the investments are delivered with an acceptable degree of risk and at a reasonable cost. In addition, we examined a selection of IT-enabled business investments to determine whether the Agency was using these management practices effectively. We also verified that the selected projects complied with Agency policies, guidelines, and procedures. We did not assess whether the projects achieved expected outcomes.

We interviewed officials at Headquarters from the Information Technology Branch and in five branches leading the projects that were under way or recently completed. We also interviewed current and previous members of the Resource and Investment Management Committee.

Our approach included analyzing various documents (policies and guidelines) and meeting employees and managers involved in the selected projects. In addition to Headquarters, we visited two Tax Services Offices and one Tax Centre. During those visits, we interviewed senior officials.

In conducting our audit, we relied on two internal audits conducted by the Corporate Audit and Evaluation Branch: Local Solutions and Business Intelligence Decision Support.

Criteria

Listed below are the criteria that were used to conduct this audit and their sources.

Criteria	Sources
Making the right investments	
We expected that the Agency would have adopted an appropriate governance structure consistent with best practices for IT management.	IT Governance Institute, Enterprise Value Governance of IT Investments—The Val IT Framework (2006) sections 4 and 5
We expected that the Agency would have established clear direction and strategy for IT investments, keeping them in line with overall corporate objectives.	IT Governance Institute, Enterprise Value Governance of IT Investments—The Val IT Framework (2006) sections 4 and 5

Criteria	Sources
We expected that the Agency would have implemented appropriate systems and practices to evaluate, prioritize, and choose IT investments.	IT Governance Institute, <i>Enterprise Value: Governance of IT Investments—The Val IT Framework</i> (2006), sections 4 and 5
Managing information technology projects	
<p>We expected that the Agency's projects would include</p> <ul style="list-style-type: none"> • comprehensive business cases, in compliance with best practices; • appropriate governance and accountability structures; • adequate project management, based on risk management; and • clearly defined benefits that were adequately tracked and reported. 	<ul style="list-style-type: none"> • Treasury Board of Canada Secretariat, <i>An Enhanced Framework for the Management of Information Technology Projects—Project Management Guide</i> (February 2002) • Canada Revenue Agency, <i>Policies, Procedures, and Guidelines for Managing Projects</i> • IT Governance Institute, <i>Enterprise Value: Governance of IT Investments—The Val IT Framework</i> (2006), Section 5

Audit work completed

Audit work for this chapter was substantially completed on 30 May 2008.

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 5. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Making the right investments	
<p>5.22 Within two to three years, the Agency Management Committee should ensure that it receives and reviews information on how well its new project management policies, procedures, and guidelines are being implemented and on how well they are being complied with throughout the Agency. (5.10–5.21)</p>	<p>Agreed. Within two or three years, the Canada Revenue Agency (CRA) will undertake and complete an assessment of how well the enhanced project approval and monitoring framework is being implemented and complied with across the Agency. This kind of periodic review is performed as a matter of course by the CRA. In fact, such a review led to the above-noted improvements to the project oversight framework, which were approved by the Agency's Management Committee in early 2008. These changes included the development of new training and information products to increase the awareness of the new project management regime, as well as more detailed guidelines and templates to facilitate compliance.</p>
<p>5.42 To strengthen its governance of IT investments and provide management with better information for decision making, the Canada Revenue Agency should</p> <ul style="list-style-type: none"> • complete its inventory of IT applications, including assessing their sustainability and associated risks; • finish developing its multi-year strategic investment plan; • define appropriate categories for the IT investment portfolio and report the results periodically to senior management; and • document clear evaluation criteria for prioritizing and selecting IT investments for the portfolio. <p>(5.23–5.41)</p>	<p>Agreed. The Canada Revenue Agency (CRA) will complete its inventory of IT applications (including an assessment of their sustainability and associated risk) and will finish developing its strategic investment plan, making every effort to ensure consistency with the Treasury Board Policy on Investment Planning—Assets and Acquired Services. Although the CRA feels that senior management is already well-informed regarding the nature, purpose, and mix of major projects in which the Agency is investing at any given point in time, the introduction of a more formal strategic investment plan will provide an opportunity for the Agency to more clearly define, summarize, and report on the categorization of its current and planned investments.</p>

Many factors must be weighed by senior management when deciding which projects to undertake, and in what order. Each decision is typically made in a unique context, and the criteria used to assess and compare the value and importance of proposed investments are chosen accordingly. The Agency will undertake to better describe that context through categorization of projects that are under way and proposed and to ensure transparency regarding the criteria applied to a particular decision.

Recommendation

5.47 The Canada Revenue Agency should develop more comprehensive performance information at the strategic level to help those responsible for managing and overseeing IT investments make more informed decisions. (5.43–5.46)

Response

Agreed. The enhanced Agency project oversight framework, which was approved by the Agency's Management Committee in early 2008, introduced a number of measures that will help the Agency to develop more comprehensive performance information at the strategic level. These measures include, among other things: the requirement for a more robust performance measurement plan and evaluation strategy for every new project, ensuring that the objectives, expected outcomes, and success criteria are clearly articulated at the outset; a greater focus on risk identification and mitigation as part of the project business case and implementation plan; the introduction of quarterly performance “dashboard” reports for all corporately monitored projects (to supplement the more detailed progress reports that were already required to be submitted periodically); and the introduction of a new Benefits Realization Confirmation step at the end of each project. Taken together, these measures will enable senior managers to acquire a better understanding of the overall health and level of risk in the IT project portfolio, to better assess how well the Agency is achieving its strategic investment objectives, and to better gauge the overall success rate of IT projects.

Managing information technology projects

5.71 The Canada Revenue Agency should strengthen its review procedures, including requiring that high-risk IT projects are independently assessed at specific intervals during their lifecycle. 5.48–5.70

Agreed. The Canada Revenue Agency will examine ways to further strengthen its review procedures, including the engagement of an independent party to assess high-risk IT projects at critical stages during their lifecycle. The requirement, timing, and scope of such independent reviews will be established at the beginning of the project by the approval authority.

Report of the Auditor General of Canada to the House of Commons—December 2008

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DECEMBER

Report of the
**Auditor General
of Canada**
to the House of Commons

Chapter 6
Use of New Human Resource Authorities—
Canada Revenue Agency



Office of the Auditor General of Canada



2008



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Canada Revenue Agency



Office of the Auditor General of Canada

The December 2008 Report of the Auditor General of Canada comprises Matters of Special Importance—2008, Main Points—Chapters 1 to 8, Appendices, and eight chapters. The main table of contents for the Report is found at the end of this publication.

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Chapter

6

Use of New Human Resources
Authorities
Canada Revenue Agency

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Use of New Human Resources Authorities

Canada Revenue Agency

Main Points

What we examined

In 1998, the government identified human resources management (HRM) at the Department of National Revenue as an area requiring significant change. In creating the Canada Customs and Revenue Agency (which later became the Canada Revenue Agency), Parliament empowered the Agency to design and develop its own tailor-made framework and systems to manage human resources. In particular, as a separate agency under the *Public Service Staff Relations Act* (which became the *Public Service Labour Relations Act* in 2003), the Agency took over the “employer” responsibilities from the Treasury Board and staffing authorities from the Public Service Commission of Canada. The Agency’s direct responsibilities for human resources were extended to staffing, classification, compensation, labour relations, collective bargaining, training, and human resources policy development. The key objective was to help make the Agency’s HRM regime more efficient, effective, and responsive to its business needs.

We examined the Agency’s use of its new human resources authorities in the areas of staffing, classification, compensation, and labour relations. We also examined whether the Agency can demonstrate that its management of human resources is more efficient and that it is effective and responsive to the Agency’s business needs.

Why it’s important

The Canada Revenue Agency depends heavily on having a qualified workforce to deliver its tax administration mandate and protect Canada’s tax base. It spends close to \$2.8 billion annually for its workforce of some 43,000 employees—a significant portion of its operating costs. The Agency has said that this workforce must be supported by a responsive human resources management regime that is based on principles and values. One of the government’s goals in creating the Agency was to make it a more efficient and effective organization. It highlighted human resources management as one key area in need of significant change.

What we found

- The Agency faced significant challenges in developing and implementing initiatives to use its new human resources authorities. It is a large, decentralized organization with a long history and a unique culture. It also had no public sector models to follow for some of its initiatives. Having set an ambitious agenda, it has worked to implement that agenda.
- The Agency has used the human resources authorities and flexibility it was granted by Parliament in 1999 to create a human resources management regime that is designed to respond to its specific business needs. For example, it has defined the competencies required to do almost all of its jobs and has updated many work descriptions; it has created distinct occupational groups and implemented three of them successfully; and it has made changes to employee compensation through collective bargaining to be more competitive. Further, it has introduced initiatives to improve labour relations, and union and management representatives told us that those relations are generally harmonious and better than they were in 1999.
- The Agency has had great difficulty implementing a critical part of its new staffing process. The process calls for an objective assessment of employees' competencies when filling vacancies. Due to the size of the workforce and to poor project management in the early years, these assessments are taking a lot longer than anticipated. As a result, the process has not yet resulted in faster staffing actions, one of its main goals. An efficient staffing process is critical in light of the recruitment challenges the Agency expects to face in the coming years. In addition, employees indicated that the process is confusing and frustrating, in part due to the many changes that have been and continue to be made.
- During the development of the initiatives to implement its human resources authorities, the Agency did not determine how it would measure their success. While its recent annual reports indicate that the Agency continues to meet most of its operational objectives, it has difficulty linking that result to the use of its new human resources authorities.

The Agency has responded. The Agency substantially agrees with all of the recommendations. Its detailed responses follow the recommendations throughout the chapter.

Introduction

6.1 In 1998, the federal government tabled Bill C-43—*The Canada Customs and Revenue Agency Act* (since renamed the *Canada Revenue Agency Act*). The government argued that the Canada Revenue Agency (the Agency) needed a unique structure and more management flexibility to

- provide better service for Canadians,
- become a more efficient and effective organization, and
- establish a close partnership with the provinces and territories.

It highlighted human resources management as one key area in need of significant change.

6.2 The Act empowered the Agency as a separate agency to design and develop its own tailor-made human resources management framework. It changed the roles and responsibilities related to human resources management by having the Agency take over “employer” responsibilities, such as collective bargaining, from the Treasury Board as well as staffing responsibilities, such as setting the requirements for hiring and promotions, from the Public Service Commission. These new responsibilities included those related to staffing, job classification, compensation, labour relations, collective bargaining, training, and human resources policy development. The goal was to provide management with the flexibility required to manage its human resources by shifting away from rules and regulations it deemed to be both cumbersome and slow.

6.3 The Act also created a Board of Management, made up of members nominated by the federal, provincial, and territorial governments. The Board oversees the organization and administration of the Agency and, in particular, oversees the management of its resources, services, property, personnel, and contracts.

6.4 The Agency still had to comply with some of the requirements of the *Public Service Staff Relations Act* (PSSRA). In 2005, the *Public Service Labour Relations Act*, which replaced the PSSRA, reinforced the Agency’s “employer” role. Changes to the human resources management framework at the Agency were expected to help it recruit and retain staff, particularly those with tax and technical expertise who were in high demand. In addition, the Agency committed to integrate its human resources and operational planning.

6.5 The Agency faced significant challenges in developing and implementing initiatives to use its new authorities and achieve the objectives set for it. It is a large, decentralized organization with a long history and a unique culture. Having set an ambitious change agenda, it has worked to implement that agenda.

Focus of the audit

6.6 The audit examined how the Agency has used the new human resources authorities it was granted by Parliament when it became a separate agency in 1999. Our objective was to determine whether the Agency can demonstrate that it has used its flexibility and its authorities to make human resources management more efficient. We also wanted to determine whether the Agency can demonstrate that human resources management is effective and responsive to the Agency's business needs. We focused on four aspects of human resources management: the staffing process, including staffing recourse; job classification; employee compensation; and labour relations and conflict resolution. These aspects reflect the biggest changes that were made to the Agency's human resources management regime when it became a separate agency.

6.7 More details on the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendations

Competencies

Competency-Based Human Resource Management (CBHRM)—A human resources framework that is based on the premise that employees will be selected, evaluated, developed, and promoted based on competencies that support organizational success.

Competencies are the basis for human resources management

6.8 The Canada Revenue Agency introduced **Competency-Based Human Resource Management (CBHRM)** as the foundation for its management of human resources. CBHRM is based on the principle that effective organizational performance will result from having the right people, in the right jobs, at the right time, and with the right skills. In other words, CBHRM is designed to help the Agency meet its business needs.

6.9 A competency is any measurable or observable skill, ability, knowledge, or behavioural characteristic. Each competency has levels of proficiency. An example of a competency (and its levels of proficiency) is analytical thinking (Exhibit 6.1). The Agency's competency catalogue includes more than 55 competencies developed by groups of managers and employees. These competencies are aligned with the Agency's business needs.

Exhibit 6.1 Each competency has levels of proficiency

Analytical thinking: understanding a situation by breaking it into smaller pieces, or by tracing its implications, issues, or problems in a step-by-step way. Analytical thinking describes the behaviours required to perform a thinking process used to produce useful information that will support appropriate actions and decisions.

Scale	Underlying notion	Possible illustrations
Level 1—passive behaviour	Recognizing basic situations	Recognizes basic situations/issues and selects from a limited number of pre-established responses.
Level 2—active behaviour	Clarifying the situation	Clarifies what the situation/issue is by breaking it down into components. Selects appropriate action(s) from defined options, available guidelines, and precedents.
Level 3—proactive behaviour	Examining the facts and making assumptions	Analyzes and examines the available information, identifying gaps and developing potential explanations or causes in order to select the most appropriate response(s).
Level 4—strategic behaviour	Evaluating, interpreting, and integrating	Evaluates and interprets situations/issues that are typically multi-dimensional, abstract, and precedent setting and integrates them into a complete solution.

Source: Canada Revenue Agency

6.10 Each job has a distinct competency profile, called a job competency profile (JCP), that includes no more than 13 competencies and the level of each competency required to do the job. Almost all of the Agency's jobs now have a JCP. Each employee has a distinct competency profile, called an employee competency profile (ECP). It includes the level achieved in the competencies for which the employee has been assessed. At the time of the audit, 65 percent of employees had at least one competency assessed; 30 percent had five or more.

6.11 The idea for using competencies at the Agency began when various teams of managers, employees, and union representatives met in 1997 and 1998 before the Agency was created. These teams studied the problems with the human resources management regime at the time, researched existing practices and ways to improve it, and recommended that competencies be the basis for human resources management in the new Agency. The Board of Management endorsed this recommendation.

6.12 The new human resources regime, including the move to CBHRM, was a major cultural shift for the Agency. As well, the Agency had no public sector models to follow. The Agency decided to introduce CBHRM through staffing and then expand it to other areas such as training and performance management. Our review of human resources management literature reveals that organizations usually introduce CBHRM through training and performance management before moving to staffing. Given these factors, the Agency now recognizes that introducing CBHRM through internal staffing was a risky strategy.

The staffing process

6.13 The *Canada Revenue Agency Act* gives the Agency the authority to hire and promote any employees that it considers necessary to conduct its business. It also requires the Agency to develop a program that governs staffing. We examined whether the Agency was using its staffing authorities. Staffing is a critical aspect of human resources management, the goal of which is to find the right person to do a particular job.

A staffing program is in place

6.14 We expected to find that the Agency had developed a staffing program to help it meet its operational needs. We found that it has put policies and processes in place to use its staffing authorities and has developed a staffing program based on a set of staffing principles rather than rules and regulations. These principles are compatible with those of the *Public Service Employment Act*, allowing employees to move to and from the rest of the public service (Exhibit 6.2).

6.15 A staffing program needs to be supported by sound human resources planning. We found that the Agency has recently developed its first Workforce Plan. We note that the Workforce Plan is based on the business needs outlined in the Agency's Corporate Business Plan. It identifies several issues to be addressed over the next three-year planning period due in part to demographic pressures such as retiring baby boomers. These issues include recruitment, retention, and employee mobility. The Plan is a strategic document that recognizes the need to develop action plans that will respond to each of the identified challenges.

Exhibit 6.2 The Canada Revenue Agency's staffing principles

Non-partisanship: The workforce must conduct itself in a manner that is free from political and bureaucratic influence. Staffing decisions must be free from political and bureaucratic influence.

Representativeness: The composition of the workforce reflects the available labour market.

Competency: The workforce possesses the attributes required for effective job performance.

Fairness: Staffing decisions are equitable, just, and objective.

Transparency: Communications about staffing are open, honest, respectful, timely, and clearly understood.

Efficiency: Staffing processes are planned and conducted having regard to time and cost, and linked to business requirements.

Adaptability: Staffing processes are flexible and responsive to the changing circumstances and to the unique or special needs of the organization.

Productiveness: Staffing decisions result in the appointment of the necessary number of competent people for the proper conduct of business.

Source: Canada Revenue Agency

Good project management has been lacking

6.16 As with its other human resources programs, Competency-Based Human Resource Management (CBHRM) is the foundation for the Agency's staffing program. Introducing such an ambitious change as CBHRM, especially in a very large organization, requires good project management:

- a clear vision of what is to be achieved,
- a clear statement of the expected benefits,
- a clear understanding of how the vision will be achieved and what it will cost,
- project milestones,
- frequent progress assessments, and
- a strong communications strategy to reinforce the message and the progress being made.

We expected to find all these aspects of good project management in place at the Agency.

6.17 Both the Human Resources and Corporate Audit and Evaluation branches have studied various aspects of the implementation of the staffing component of CBHRM and have raised a number of concerns about a lack of good project management. We expected that the

concerns about project management would have been addressed. We found that the Project Portfolio Integration Office was established in January 2005 to strengthen the management of projects in the Human Resources Branch. We also requested copies of project charters, risk assessments, project plans, and status reports for the various staffing initiatives. We were told that, except for a few recent cases, these documents did not exist. Although the Agency is implementing the staffing component of CBHRM and has several initiatives to address problems that have arisen along the way, there is still no overall plan with projected costs, milestones, and expected results. An overall plan would enable the Agency to consider the effects of its various initiatives on the whole process and to effectively integrate them into the process. It would also provide a basis for monitoring and assessing progress in reaching the goal of a pre-qualified workforce for staffing.

6.18 The staffing design team that met before the Agency was created had proposed a staffing system that would include

- a competency framework to identify the knowledge, skills, abilities, and employee attributes required at different job performance levels;
- pools of pre-qualified employees that would be set up to fill vacant jobs—employees would ask to have their competencies assessed to qualify for a pool and would be given feedback if they did not qualify;
- an automated search procedure that hiring managers would use to obtain a short list of pre-qualified candidates from the appropriate pool; and
- a placement process that would use specified criteria and methods to select a candidate from the short list.

6.19 “Base competencies” introduced to speed up staffing. The Agency set out to develop the proposed staffing system. Given the large number of employees and the number of competencies in each Job Competency Profile (JCP), it decided to assess competencies only for employees seeking promotion. But it realized by 2003 that the project would take much more time and effort than anticipated. To speed up the process, it decided that, as a short-term measure, it would define a Base Competency Profile (BCP) and focus on assessing those competencies for staffing purposes. For employees, the base competencies are client service orientation, effective interactive communication, analytical thinking, teamwork and cooperation, and

writing skills. We note that more competencies from the JCP can also be assessed if the hiring manager believes they are critical.

6.20 We expected to find that this short-term measure had been well planned and then communicated to staff. In fact, we found it had been put together without fully considering the impact it would have on the vision for staffing. For example:

- How would the competencies in the JCP, other than the base competencies, be assessed for staffing purposes, or would they be assessed?
- If it was important for employees to have all of the competencies in the JCP to be effective in the job and contribute to organizational success, when and how would employees be required to demonstrate the remaining competencies?
- Would pools of pre-qualified candidates be too large because many employees had the same BCP? Would this situation prevent hiring managers from obtaining a “short list” and force them to look for other ways to differentiate the candidates?

6.21 Furthermore, the temporary shift to BCP for staffing was not clearly communicated to employees. The Agency’s internal website describes a vision of a pre-qualified workforce where employees have their competencies assessed outside of a selection process so that they are ready to compete for positions that interest them. This vision assumes that all of the competencies in a JCP will be used during the staffing process. Yet neither the vision statement nor its related documents explain that, as an interim measure to achieving this vision, the Agency will focus on assessing base competencies for staffing. Furthermore, the Agency has not clearly stated how it expects to achieve its ultimate goal of a workforce pre-qualified on all of the competencies needed for current and possible future jobs.

6.22 Little costing information. We also expected to see a full accounting of the costs of implementing the staffing component of CBHRM. We learned that the Agency had recently hired a consultant to develop an activity-based costing model for staffing, which should provide costing information for future years. However, in the absence of good information, the Agency was unable to tell us how much it has spent to date on the new staffing program.

The staffing process is confusing and frustrating for employees

6.23 The Agency's staffing model includes a Pre-Qualification Process (PQP) that requires objective assessment of an employee's competencies. The results of this assessment become part of the employee's competency profile and can be used in any selection process, a significant improvement over pre-Agency days when competencies or qualifications had to be re-tested for every selection process. Shortly after launching PQP in 2002, the Agency recognized that it did not have the capacity to fully implement the model, so it took steps to make the process more workable:

- It introduced more standardized tools to assess competencies, some of which took less of the assessors' time.
- It moved to the BCP discussed earlier, which dramatically reduced the number of competencies that needed to be assessed for staffing purposes.
- It introduced Observe and Attest where an employee's supervisor could observe the employee's behaviour over six months and then attest that the employee had a particular competency.
- It trained and accredited additional competency consultants. It also introduced Competency Overview Qualified Assessors and trained them to do some of the assessments on a part-time basis.
- It introduced voluntary assessments whereby employees could ask to have their competencies assessed outside of a selection process (this idea was part of the original plan but had not been put into practice due to the limited number of assessors).

6.24 The Agency's internal website contains a lot of information on the staffing process. As well, the Agency provides training to employees who apply for promotion. Despite this support, we found that, in general, employees have a poor understanding of how PQP works, in part because of the many changes that have been and continue to be made.

6.25 We also found that the staffing process is frustrating for employees. An employee survey by an external consultant in 2005 showed a high level of dissatisfaction with PQP. Our focus groups revealed that employees continue to be concerned about the overall fairness and transparency of the process. For example, many of the standardized tools to assess competencies require that employees write about or verbally describe one situation where they demonstrated a certain competency. Employees told us they felt that those who could

write or speak well were more likely to achieve the required competency level even if they did not display the competency on a regular basis.

6.26 Employees also told us that their manager's view of whether they had demonstrated the particular competencies needed to do the job often did not agree with the results of the assessment of those competencies. While the introduction of Observe and Attest has allowed managers to assess some of the competencies of their employees, the Agency needs to strengthen the link between performance management, which includes a discussion of the demonstration of competencies, and the formal assessment of competencies. In a fully integrated CBHRM environment, these two functions would be strongly linked.

6.27 Finally, employees told us that it took a long time to write up their competencies or to prepare for an interview with an assessor. As well, the employee survey described earlier found that almost 60 percent of employees who were part of a PQP spent more than 30 hours preparing for the assessment stage. The Agency has allocated 7.5 hours during an employee's career to complete this task and expects employees to invest some of their own time.

Progress is slow in achieving expected staffing efficiencies

6.28 One of the goals in creating the Agency was to make it a more efficient and effective organization. This goal included significantly shortening the time it took to staff a position. The Agency has more than 600 internal staffing processes each year with an average of 47 applicants per process. It also has some 200 external recruitment processes each year with an average of 263 applicants. We examined this aspect of the new regime and expected to find that the changes had streamlined and simplified the staffing process.

6.29 The staffing process at the Agency has three distinct phases—prerequisite, assessment, and placement. The prerequisite stage ensures that only candidates who have the requisites stated in the job posting, such as educational attainment, will move on to the assessment stage. At the assessment stage, candidates who achieve or already possess the assessment results outlined in the job posting, such as proficiency levels on the base competencies, move into a pool of pre-qualified candidates. The hiring manager can then use placement criteria listed in the job posting, such as depth and breadth of experience, to select a candidate from the pool.

6.30 Before the Agency was created, it took 166 days on average to staff a position internally; if the staffing decision was appealed, the appeal could add several months or even years to the process. The time to staff was defined as the average number of calendar days from the start of the staffing process to the date of the first letter of offer to a candidate.

6.31 Under its new process, the Agency has defined time to staff as the average number of calendar days that elapse from the time the job posting appears until the pool is created (a pool is created once all of the candidates have been assessed and have requested recourse, if they choose to do so). The Agency's proposed performance indicators have a target of 60 days to staff a position internally and 97 days for external recruitment. Using this new definition and a new methodology, the Agency has calculated that it takes an average of 173 days to staff a position, through either internal staffing or external recruitment. However, this number does not give a full picture because the Agency does not track how much time it takes to appoint candidates from the pool to a position. The pools are used to staff positions that are currently vacant and similar positions that will become vacant in the future. For positions that were vacant at the time the job posting appeared, it would take more than 173 days to staff the position because the hiring manager would have to interview potential candidates or conduct further tests using the placement criteria. For positions that become vacant after the pool is created, the hiring manager simply needs to use existing placement criteria since potential candidates are already pre-qualified. Thus it should take much fewer than 173 days to staff those positions.

6.32 Due to a lack of data, we were unable to determine the average time it takes to staff a position from the time it becomes vacant until it is filled. However, using the Agency's indicator for time to staff, we conclude that the staffing process is not yet efficient. We note that in the past year, the Agency has increased its use of lengthy acting appointments to fill positions. While the Agency has not analyzed the reasons for this increase, inefficiencies in the staffing process could be one of them.

6.33 The Agency has stated that once most of its employees are assessed on their base competencies, staffing will be much quicker because those competency levels can be used in future selection processes. However, the Agency has not estimated how long it will take to assess its employees and those it will recruit or how much it will cost. At the time of the audit, only 30 percent of 43,000 employees had been assessed for the five base competencies. The Agency has around

225 qualified assessors. As well, managers can use Observe and Attest to assess three of the five base competencies. But it will take a long time to reach the goal of having base competencies assessed for all employees. Even then, the base competencies will essentially become prerequisites for a position and more testing will have to be done for most selection processes, thereby adding time.

6.34 Executive cadre. The human resources processes that apply to the Agency's executives differ somewhat from those used for the rest of the Agency's workforce. For example, the Agency decided to continue using the same key leadership competencies that are used for executives in the rest of the public service to maintain job mobility. Since 1999, the Agency has been using a more flexible version of the PQP process for executives. It relies more on assessment committees and other means—both of which tend to take less time. We found that the staffing process for executives has been streamlined and simplified—80 percent of staffing requests are completed within three months, an improvement over the 1998–99 fiscal year when the figure was 46 percent.

6.35 CBHRM is a sound foundation for human resources management, but the Agency has had great difficulty implementing the staffing component of it. Despite being responsive and creative in working to resolve the various problems that arose, the Agency is far from achieving its vision of a workforce pre-qualified on all of the competencies in the Job Competency Profile for staffing purposes. In our view, before pushing ahead with further initiatives, the Agency needs to reflect on the vision at a strategic level and develop a sound project plan to achieve it.

6.36 Recommendation. The Canada Revenue Agency should review its approach to staffing in a Competency-Based Human Resources Management environment in order to

- assess progress that has been made to date in reaching its vision of a pre-qualified workforce for staffing purposes;
- put in place a detailed action plan with incremental costs, timelines, and milestones to move the process from its current state to its desired state;
- better reflect employees' performance on the job in the formal assessment of competencies;

- communicate to employees the interim steps that are being taken to implement the vision and its progress toward achieving that vision to increase their level of comfort with the direction the Agency is taking; and
- assess the impact of any new changes after they are implemented, and communicate the results of this work to all employees.

The Agency's response. At this time, the Canada Revenue Agency agrees with four of the five points itemized in the recommendation. As explained in detail below, the Canada Revenue Agency will review the feasibility of the third point. Aligned with available resources, the Canada Revenue Agency will do the following:

- Conduct an analysis of the progress achieved to date in reaching our vision, and make appropriate recommendations to ensure alignment with the Agency's business needs.
- Put in place a detailed action plan to move the process from its current state to its desired state.
- Build on the existing communication that has taken place in order to increase employees' level of understanding of the direction being taken with Competency-Based Human Resources Management. This would include additional information concerning staffing and regular progress reports on the steps being taken for the implementation of future enhancements.
- Review and build on strategies currently in place to assess the impact of future enhancements and share these results with employees.

In regards to the third point, the Canada Revenue Agency will review the feasibility of including employee performance on the job in the formal assessment of competencies. This review will necessitate extensive stakeholder consultations, including consultation with unions as performance reviews are included in the collective agreements. Following this review, the Canada Revenue Agency will determine the appropriate future steps.

We expect to have completed these activities by 31 March 2010.

Staffing recourse—A process that gives people a chance to raise concerns about staffing and to have those concerns addressed in a timely manner.

Approach to appeals of staffing decisions has been improved

6.37 We examined whether the Agency was using its **staffing recourse** authorities and expected to find that it had developed and implemented initiatives to allow it do so. Under the old regime, staffing recourse could only happen once an appointment was announced.

Unsuccessful candidates or certain other employees could then appeal the appointment using the Public Service Commission's appeal process. In 1999, the Agency design team said that this process was too much of a burden, too time-consuming, and needed to be improved.

6.38 We found that the Agency had implemented a formal, three-part process for staffing recourse to determine whether an employee was treated arbitrarily.

- Individual Feedback (IF) is provided to employees by the hiring manager or a competency assessor to explain a decision made during a staffing process. Employees can also request IF to discuss career development.
- Decision Review (DR) is a review of a staffing decision by the supervisor of the hiring manager.
- Independent Third Party Review (ITPR) is a review of a staffing decision by a person external to the Agency.

6.39 Individual Feedback is available to employees at any of the three stages of the staffing process. At the assessment stage, the employee can also request DR. At the placement stage, the employee can request DR or ITPR as well as IF. The Agency expected the process to address concerns in a timely manner and to provide feedback on developmental needs. In addition, the process allows corrections to be made efficiently and candidates to re-enter the staffing process, a major advantage over the former appeal process.

6.40 Employees and their representatives have raised concerns that the new process is less transparent and fair than the former process and that the feedback they received was not effective. To respond to these concerns, the Agency did two reviews of recourse principles and processes (as well as doing a review that was required by the *Canada Revenue Agency Act*). The most recent review was done by senior operational managers, union representatives, and a human resources specialist. This working group was able to agree on most issues that were discussed and recommended ways to improve the process while maintaining its basic structure. The Human Resources Branch plans to implement those recommendations. The bargaining agents continue to disagree with management's position that employees cannot be represented at IF and DR.

More work needed on performance measures

6.41 One of the main reasons for creating the Agency in 1999 and giving it new authorities and flexibility in human resource

management was so it could meet its business needs better. We expected to find performance measures for the staffing program that would demonstrate whether the Agency had accomplished this objective.

6.42 We found that during the development of its staffing program, the Agency did not determine how it would measure the program's success. Nor has it collected data that would help it demonstrate that its use of its staffing authorities is allowing it to meet its business needs better. While recent annual reports show that the Agency continues to meet most of its operational objectives, it has difficulty linking that result with the use of its new staffing authorities.

6.43 Despite a recognition by the Agency in 2000 that good performance indicators were needed and despite statements by the Agency since then that significant progress had been made in developing them, only recently has the Agency prepared a draft performance measurement and evaluation framework for resourcing (staffing), competency, performance, and recourse programs. Although the Agency has some indicators for staffing, such as time to staff, demographic data, and the number of requests for recourse, it still lacks other basic human resources indicators, such as cost per hire, mobility trends within the Agency, and the proportion of successful candidates in various selection processes. When implemented, the draft framework will provide much of this basic information.

6.44 Recommendation. The Canada Revenue Agency should finalize and implement its draft performance measurement and evaluation framework for resourcing, competency, performance, and recourse programs so it can provide management with the information it needs to plan, monitor, and improve those programs on an ongoing basis.

The Agency's response. The Canada Revenue Agency agrees with this recommendation. The performance measurement and evaluation framework for resourcing, competency, performance, and recourse programs will be finalized by 31 March 2009. This framework will be reflected in operational performance expectations for 2009–2010 and appropriate monitoring and reporting will follow.

Classification of jobs

6.45 The Agency was given the authority to classify its positions, in part so its classification system would fit its business needs more closely. We examined whether the Agency was using this authority and expected to find that the Agency had developed and implemented initiatives to allow it do so.

Total number of occupational groups has been greatly reduced

6.46 We found that the Board of Management approved a restructuring of the Agency's occupational groups in 1999 based on a recommendation by a design team of employees, managers, and union representatives. The restructuring reduced the number of occupational groups within the Agency, from 34 to seven—Executive; Management; Management Development; Services and Programs; Audit, Financial, and Scientific; Human Resources; and Information Technology.

6.47 The Agency has used its authorities to develop and implement classification standards for three of the seven groups: Management, Executive, and Services and Programs. While it plans to develop a classification standard for the Audit, Financial, and Scientific group and to revise the classification standards for two other groups—Human Resources and Information Technology—it has not yet set firm timelines for these projects.

New occupational group for managers was created

6.48 One of the Agency's goals was to create a management community that would recognize the importance of the manager's role in supporting employees throughout the Agency and be a focal point for leading and managing change within the Agency. We found that in 2002 it introduced the Management (MG) occupational group composed of managers from 22 occupational groups. The MG group increased the emphasis on people management skills and recognized this emphasis through performance incentives and specialized training.

6.49 During our focus groups and interviews, managers told us that, overall, the transition to the MG group was successful. The manager's role is understood and recognized by both managers and employees. We reviewed the Agency's 2005 survey of employees and noted improvements since the 2002 survey in the relationships between employees and their immediate supervisors. This result suggests that the emphasis on people management skills is taking hold.

6.50 Executive cadre (EC). The Agency implemented the EC group of about 550 executives in 2005 by merging the senior managers (SM) and executive (EX) groups. We found that the classification standard for EC jobs is based on the executive classification plan used in the rest of the public service, but customized for the Agency.

Over 25,000 employees now form one occupational group

6.51 In November 2007, the Agency implemented the Services and Programs (SP) occupational group by merging 16 occupational groups, totalling more than 25,000 employees, into one new group. The Agency had planned this change earlier, but put the project on hold in December 2003 following the creation of the Canada Border Services Agency and the departure from the Canada Revenue Agency of many employees who would have been part of the SP group. The project was revived in April 2005.

6.52 We found that the project was well managed. As an early step, the Agency consolidated some 1,300 existing jobs that were to be converted to the SP group into about 600 jobs. For example, it consolidated 70 different administrative jobs from across the Agency into the job of “Administrative Clerk” and then developed a generic work description for that job that encompassed the work descriptions of the previous jobs. This exercise made the final conversion easier because there were fewer jobs to convert. It also gave the Agency an opportunity to review the related Job Competency Profiles and to link competencies and work descriptions. During this process, the Agency consulted frequently with the Public Service Alliance of Canada (PSAC), which is the union representing all employees in the SP group. PSAC endorsed the conversion. We were told during our focus groups that the conversion was generally well received by employees and managers. We note that employees’ pay rose by an average of 1.67 percent as a result of the conversion.

Benefits of classification changes need to be assessed

6.53 The Agency expected several benefits from restructuring its occupational groups, including a reduced administrative burden and costs due to fewer pay structures, fewer classification actions, and a simpler collective bargaining process. It also expected that the change would enhance employee mobility within the Agency by reducing the need for employees to change groups or work descriptions when they move into new jobs.

6.54 The Agency cannot yet demonstrate that its changes to job classifications have streamlined classification and other human resources management processes. Most changes that were expected to lead to efficiencies have only recently been undertaken, such as the conversion of the SP group and the consolidation of various jobs across the Agency. Therefore, it is too early to see or measure their effects.

6.55 The Agency has developed a classification case management tool that it plans to use to track the time and costs required to classify positions. It has recently finalized a framework to monitor the effectiveness of its classification activities and it is starting to use it.

Employee compensation

The Agency is committed to a competitive compensation package

6.56 The Canada Revenue Agency was given the authority to determine and regulate its employees' pay and benefits, as well as to decide the hours of work and leave of those employees, and any related matters. This authority rests with the Treasury Board for most of the federal public service. We examined whether the Agency was using this authority. Since one of the reasons for creating the Agency was to allow it to offer a compensation package that would enable it to attract and retain the expert employees it needs to meet its operational objectives, we expected to find that it had developed and implemented initiatives to allow it do so.

6.57 We found that the Board of Management had approved a compensation policy in 2001 that commits the Agency to maintaining rates of pay that are competitive for its employees, and to address any pay gaps that studies showed were affecting its ability to attract and retain qualified staff.

6.58 For the Executive Cadre, the Agency has adopted the findings and recommendations of the federal government's Advisory Committee on Senior Level Retention and Compensation, including revisions to salary ranges and performance pay for its executives. The Agency also adopted the Treasury Board's pay-at-risk scheme for executives but added an effective people management component.

6.59 For other employees, the Agency has researched economic and labour market conditions and recent collective agreements from both the public service and private sectors before each round of collective bargaining. It has also reviewed demographics and compensation data that pertain to its workforce and has commissioned compensation studies for two occupational groups—auditors and computer specialists—to ensure that its bargaining position would be enough to attract and retain these skilled employees.

6.60 Employees told us that the compensation they receive, including pay, benefits, job security, work/life balance, and flexible work arrangements is generally competitive, especially at the entry level where the Agency does most of its recruiting. The Agency has a 95 percent

employee retention rate overall (98 percent if retirements are excluded) and attracts employees in most locations across the country.

Labour relations

6.61 The *Canada Revenue Agency Act* gave the Agency the status of separate agency under the *Public Service Labour Relations Act* (PSLRA). The PSLRA sets the main legislative framework supporting labour relations in the federal public service. Under the PSLRA, the Agency can now conduct collective bargaining directly with its bargaining agents, establish consultative and coordination mechanisms with unions, and establish recourse processes including mediation. These authorities previously rested with Treasury Board.

6.62 We expected to find that the Agency had used its authority to develop and implement labour relations initiatives in compliance with the PSLRA.

Collective agreements have been successfully negotiated and signed

6.63 In 1999, the Agency had six bargaining agents representing 13 bargaining units. The Board of Management approved a plan to consolidate the bargaining unit structure and the plan was presented to the Public Service Staff Relations Board (PSSRB). The PSSRB (now the Public Service Labour Relations Board) approved two bargaining agents, the Public Service Alliance of Canada (PSAC) and the Professional Institute of the Public Service of Canada (PIPSC), to represent two bargaining units. The Agency expected several benefits from this consolidation, including fewer collective agreements to negotiate and a streamlining of the terms and conditions of employment in those agreements.

6.64 The Agency's Board of Management approves the negotiating mandate before management begins the collective bargaining process. The Act requires the Agency to consult with the Treasury Board on its human resources plan, including total increases in employee salaries or benefits, before it begins collective bargaining. While this requirement is for consultation and not approval, the Treasury Board is still responsible for approving the Agency's total budget and Corporate Business Plan.

6.65 We found that since its creation, the Agency has negotiated and signed four collective agreements with PSAC and four with PIPSC with no major labour unrest except for a strike by PSAC in 2004. It recently reached an agreement with PSAC before the old agreement had expired. This event is seen by both the Agency and the union as a significant achievement in labour relations. The new agreement

includes pay increases of 2.5 percent in each of the next three years. Renegotiation of the collective agreement with PIPSC was ongoing at the time of the audit.

6.66 We also found that the Agency has used its ability to negotiate its own collective agreements to make some changes to rates of pay and benefits to meet its business needs and the needs of its employees. We note that, for the most part, its compensation remains similar to that of the rest of the public service.

New approaches are helping resolve conflicts early

6.67 In 1998, a design team was set up to identify and develop new approaches and options for dealing with workplace conflicts, such as cultural or generational differences. The team recommended that the Agency move to a fully integrated conflict management system in which the rights of employees to seek redress through formal means would be maintained (a rights-based approach) while new methods, such as open communication, individual consultation, conflict coaching, and mediation (interest-based approaches) would be introduced to help staff at all levels settle conflicts early.

6.68 The Board of Management approved this approach and the Office of Dispute Management—since renamed the National Conflict Resolution Office—was set up within the Human Resources Branch. The Office develops guidelines, policies, and learning tools. It also oversees third-party intervention services (such as mediation) and administers the Independent Third Party Review that is part of staffing recourse.

6.69 Employees told us that they are using both web-based tools and advisers provided by the Office to resolve conflicts early, before they turn into formal grievances. The *Public Service Labour Relations Act* encourages organizations to find ways to resolve workplace conflicts at the lowest level possible in collaboration with unions. We found that the Agency is using a number of approaches to resolving conflicts, such as coaching, advice, and guidance from experts, facilitation, and mediation. As well, the Agency requires that managers and employees take training courses to help them deal with conflict in the workplace. We note that the number of formal grievances has fallen since the 2002–03 fiscal year.

Union-Management Initiative seeks to improve workplace relations

6.70 In 2005, the Agency established a national Union-Management Initiative (UMI), which built on a similar initiative developed by the Atlantic Region. UMI's goal is to improve workplace relations and to resolve conflicts as soon as possible. The philosophy of UMI is based on

- equality of the parties within the consultative process;
- mutual trust and respect;
- a commitment to be constructive, fair, sensitive, and courteous;
- facilitation of constructive decision making and problem solving at the lowest possible level;
- knowledge of and mutual respect for laws and policies that govern union-management relationships; and
- an understanding of the functions and objectives of each party.

6.71 UMI involves workshops that happen in two phases. We found that most offices across Canada had completed phase one and some were working on phase two. In many locations, union representatives and managers told us that UMI formalized what already existed and it was well received. In other locations, they said it has helped to improve union-management relations. In a few locations, they told us that the expected benefits have yet to be realized.

6.72 The Agency has also worked with the unions in introducing other changes to the human resources management regime, such as the Services and Programs (SP) conversion (discussed in the section on Classification of Jobs), a review of term employment, changes to the conflict resolution policy, and a review of staffing recourse. Union representatives and managers at the national, regional, and local levels told us that labour relations are generally harmonious and better than they were in 1999.

Conclusion

6.73 The Canada Revenue Agency has used the human resources authorities and flexibility it was granted by Parliament in 1999. It has faced significant challenges in developing and implementing initiatives to use its new authorities. Having set an ambitious change agenda, it has worked to implement that agenda.

6.74 The Agency has developed a human resources management regime that is responsive to its specific business needs. For example, it

has defined the competencies required to do most of its jobs and updated work descriptions. It has created distinct occupational groups and implemented three of them. It has bargained directly with its bargaining agents. Using its authorities, the Agency has also worked with unions to improve labour relations.

6.75 The Agency lacks data to clearly demonstrate that it has used the human resource authorities and flexibility it was granted by Parliament to make its human resources management regime more efficient. However, the Agency believes that its classification reforms will result in efficiencies, although it is too early to tell. As well, it believes that the reduced number of bargaining agents has likely resulted in efficiencies. The new staffing process has not yet resulted in faster staffing actions.

6.76 While the Agency also lacks performance measures and data to clearly demonstrate whether its human resources management regime is effective, it has a high employee retention rate and recent annual reports show that it is meeting most of its operational objectives.

6.77 The Agency's 2008–2009 to 2010–2011 Workforce Plan identifies several human resource challenges that the Agency is facing in the short- and medium-term. In our view, while the Agency's reforms in the areas of classification, compensation, and labour relations should help it successfully meet those challenges, it needs to reflect on its approach and prepare detailed plans before pushing ahead with further reforms to its staffing process.

About the Audit

Objective

The objective of the audit was to determine whether the Canada Revenue Agency can demonstrate that it has used the human resource authorities and flexibility it was granted by Parliament to make its human resources management regime more efficient and to ensure that it is effective and responsive to the Agency's business needs.

Scope and approach

We looked at the human resources authorities granted to the Agency under the *Canada Revenue Agency Act* and examined the Agency's use of these authorities. We also examined whether the Agency can demonstrate that its management of human resources is more efficient in providing it with the workforce that it needs to meet its mandate and that it is effective and responsive to the Agency's business needs.

This audit focused on the following lines of enquiry, each of which reflects the significant changes that came about when the Agency became a separate agency:

- staffing, recruitment, and staffing recourse authorities;
- classification authorities;
- compensation authorities;
- labour relations and recourse authorities and conflict resolution.

We did not examine those areas where changes occurred that were not directly related to the new authorities. Nor did we examine issues where there was no change in the regime such as Official Languages or Employment Equity.

We interviewed officials in the various Directorates of the Human Resources Branch at headquarters in Ottawa as well as members of the Board of Management and representatives from the two bargaining agents. We also conducted focus groups of managers and employees at headquarters. We obtained and reviewed relevant documents, analyzed information, and extracted data related to demographics, staffing processes, classification, compensation, and labour relations. We also examined the 2005 employee survey and internal audit reports for information related to our four lines of enquiry.

In addition to headquarters, we visited eight Tax Services Offices, two Tax Centres, four regional offices, and one Compensation Centre. During those visits, we interviewed senior officials and conducted 31 focus groups with employees, managers, and executives to obtain their views on the progress, issues, and challenges related to our four lines of enquiry. Participants in the focus groups were chosen by the local office.

The period covered by the audit was from the time the authorities were given (1999) to 30 June 2008.

Criteria

Listed below are the criteria that were used to conduct this audit and their sources.

Criteria	Sources
Use of authorities	
<p>We expected that the Agency would have developed and implemented initiatives to use the human resources authorities it was granted by Parliament under the <i>Canada Revenue Agency Act</i>.</p>	<ul style="list-style-type: none"> • 1996 Speech from the Throne (discussion on the creation of the Canada Customs and Revenue Agency and issues related to problems in the HR regime) • Canada Revenue Agency Corporate Business Plan, Human Resources Plan 2000/01 to 2002/03 Summary in Support of Strategic Direction • <i>Canada Revenue Agency Act</i> (1999), sections 50 to 59 • <i>Public Service Labour Relations Act</i> (2005), sections 8 to 11, 54 to 78, 103 to 118, and 206 to 222 • Canada Revenue Agency: The First Five Years (2004), Part D, HR Authorities • Canada Revenue Agency Policy on Project Management (2006), Section 11, Policy requirements
Streamlining of human resource operations	
<p>We expected that the changes the Agency made to its human resources management regime would have streamlined and simplified its human resources operations.</p>	<ul style="list-style-type: none"> • 1996 Speech from the Throne (discussion on the creation of the Canada Customs and Revenue Agency and issues related to problems in the HR regime) • Canada Revenue Agency Corporate Business Plan 2000/01 to 2002/03, Human Resources Plan Summary in Support of Strategic Direction • Canada Revenue Agency New Human Resources Regime Evaluation Study (2004), Objective, Scope and Methodology. • Canada Revenue Agency: The First Five Years (2004), Part D, HR Authorities • Treasury Board Policy on Project Management (2007), Appendix B, Guidelines on Basic Concepts for Project Management • Canada Revenue Agency Policy on Project Management (2006), Section 11, Policy requirements • Treasury Board of Canada Secretariat Management Accountability Framework, People Component

Criteria	Sources
Attraction and retention of its workforce	
<p>We expected that the Agency's human resources management regime would enable it to attract and retain the workforce it needs to meet its operational objectives.</p>	<ul style="list-style-type: none"> • 1996 Speech from the Throne; (discussion on the creation of the Canada Customs and Revenue Agency and issues related to the problems in the HR regime.) • Canada Revenue Agency New Human Resources Regime Evaluation Study (2004), Section: Objective, Scope and Methodology • Canada Revenue Agency: The First Five Years (2004), Part D, HR Authorities • Canada Revenue Agency Taking Stock/Moving Forward (Report on progress in HRM) (2004), Methodology • Treasury Board of Canada Secretariat Management Accountability Framework, People Component

Audit work completed

Audit work for this chapter was substantially completed on 30 June 2008.

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 6. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
<p>The staffing process</p> <p>6.36 The Canada Revenue Agency should review its approach to staffing in a Competency-Based Human Resources Management environment in order to</p> <ul style="list-style-type: none"> • assess progress that has been made to date in reaching its vision of a pre-qualified workforce for staffing purposes; • put in place a detailed action plan with incremental costs, timelines, and milestones to move the process from its current state to its desired state; • better reflect employees' performance on the job in the formal assessment of competencies; • communicate to employees the interim steps that are being taken to implement the vision and its progress toward achieving that vision to increase their level of comfort with the direction the Agency is taking; and • assess the impact of any new changes after they are implemented, and communicate the results of this work to all employees. (6.13–6.35) 	<p>At this time, the Canada Revenue Agency agrees with four of the five points itemized in the recommendation. As explained in detail below, the Canada Revenue Agency will review the feasibility of the third point. Aligned with available resources, the Canada Revenue Agency will do the following:</p> <ul style="list-style-type: none"> • Conduct an analysis of the progress achieved to date in reaching our vision, and make appropriate recommendations to ensure alignment with the Agency's business needs. • Put in place a detailed action plan to move the process from its current state to its desired state. • Build on the existing communication that has taken place in order to increase employees' level of understanding of the direction being taken with Competency-Based Human Resources Management. This would include additional information concerning staffing and regular progress reports on the steps being taken for the implementation of future enhancements. • Review and build on strategies currently in place to assess the impact of future enhancements and share these results with employees. <p>In regards to the third point, the Canada Revenue Agency will review the feasibility of including employee performance on the job in the formal assessment of competencies. This review will necessitate extensive stakeholder consultations, including consultation with unions as performance reviews are included in the collective agreements. Following this review, the Canada Revenue Agency will determine the appropriate future steps.</p> <p>We expect to have completed these activities by 31 March 2010.</p>

Recommendation

6.44 The Canada Revenue Agency should finalize and implement its draft performance measurement and evaluation framework for resourcing, competency, performance, and recourse programs so it can provide management with the information it needs to plan, monitor, and improve those programs on an ongoing basis. (6.41–6.43)

Response

The Canada Revenue Agency agrees with this recommendation. The performance measurement and evaluation framework for resourcing, competency, performance, and recourse programs will be finalized by 31 March 2009. This framework will be reflected in operational performance expectations for 2009–2010 and appropriate monitoring and reporting will follow.

Report of the Auditor General of Canada to the House of Commons—December 2008

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2008



DECEMBER

Report of the
**Auditor General
of Canada**
to the House of Commons

Chapter 7
Economy and Efficiency of Services—
Correctional Service Canada



Office of the Auditor General of Canada



2008



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Chapter 7
Economy and Efficiency of Services—
Correctional Service Canada



Office of the Auditor General of Canada

The December 2008 Report of the Auditor General of Canada comprises Matters of Special Importance—2008, Main Points—Chapters 1 to 8, Appendices, and eight chapters. The main table of contents for the Report is found at the end of this publication.

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Chapter

7

Economy and Efficiency of Services
Correctional Service Canada

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Economy and Efficiency of Services Correctional Service Canada

Main Points

What we examined

Correctional Service Canada (CSC) is responsible for criminal offenders sentenced by the courts to two years or more in prison. It provides custody and care to 14,500 inmates in 58 federal institutions and 16 community correctional centres. It also supervises offenders after release, through 71 parole offices.

We examined whether CSC management ensures that goods and services for its institutions are procured, managed, and delivered with sufficient attention to economy and efficiency. Specifically, we focused on whether food, clothing, and cleaning products of the desired quality are obtained at the lowest available cost and whether related services are delivered efficiently. We also looked at security services, in particular at whether CSC is efficient in the deployment of correctional officers among institutions, including the use of overtime.

Why it's important

Correctional Service Canada has an obligation to ensure the safety and security of the Canadian public as well as its inmates and staff by preventing inmate escapes as well as violent incidents in its institutions. In addition, it has significant financial responsibilities. It spends about one third of its budget—about \$642 million—on security and food, clothing, and cleaning services. Savings that are achieved through better management of costs can be reinvested in areas that Correctional Service has identified as priorities. At the same time, in its 2007–08 *Report on Plans and Priorities*, CSC said it had exhausted its ability to reallocate existing resources in order to meet its challenges.

What we found

- Correctional Service Canada does not manage its purchasing of food, clothing, and cleaning products in a way to obtain best value at the lowest available cost. Its purchasing processes are behind those of other industries that purchase similar goods in similar volumes. Quantities of food and cleaning products needed for the 58 institutions are not analyzed at the national level; instead, institutions determine the quantities of food and cleaning products they need and carry out much of their own purchasing. This means the Agency is missing opportunities for savings available through higher-volume purchasing. In addition, CSC has not analyzed either

the overall cost of preparing food inside the institutions or whether there are more economical alternatives. While it manages most clothing purchases at the national level, a substantial percentage of purchases are still made locally by institutions.

- Correctional Service Canada is developing a model for a more consistent approach to allocating correctional officers among institutions, by introducing national standards for deployment. The model is based on the estimated minimum number of officers required to maintain a safe and orderly medium security institution. However, this model has not yet been adapted to fit each institution, nor has its potential impact on the need for overtime been assessed.
- Overtime costs have continued to increase in the last six years, significantly exceeding the amount budgeted. At the same time, spending on rehabilitation programs, training, and building maintenance has been less than the budgeted amounts. We were told that some key factors in the use of overtime by officers are unscheduled leave or training, the need to cover duties of vacant or unstaffed positions, the need to escort inmates to hospitals and courts, and the need to keep certain criminal groups away from each other. While we recognize that some overtime is necessary to deliver security services, we found no overall strategy or policy designed to control the use of overtime, and little analysis of the impact of overtime on salary expenses and programs and of whether using overtime is more economical than hiring additional personnel.
- In examining the increased use of overtime, we noted that, in some cases, employees' leave records are not updated consistently to reflect actual leave taken. In the month tested, as many as one third of absences in some institutions were not recorded in the human resources management system. Unrecorded leave allows for the same employee to take additional leave later; overtime is likely to be incurred each time that employee takes unscheduled leave.
- CSC focuses much of its effort on safety and security over economy and efficiency. We found little direction from national headquarters to institutions on how to manage their operations more economically and efficiently. The mandates of senior management committees refer to setting strategic direction and corporate policy and to providing advice, but none of them refers to responsibilities for economy and efficiency, such as establishing expectations, monitoring results, and taking corrective action. None of the performance information currently tracked looks at economy or efficiency of operations. Further, the requirement to manage economically and efficiently is not

included in senior management performance agreements, so there is little incentive for them to do so.

The Agency has responded. The Agency agrees with our recommendations and has committed to implementing corrective action. In some cases, this action has already begun. Its detailed responses follow each recommendation throughout the chapter.

Introduction

7.1 Correctional Service Canada (CSC or the Agency), through its Commissioner, reports to the Minister of Public Safety. CSC is responsible for the custody and care of criminal offenders sentenced by the courts to serve two years or more. The *Corrections and Conditional Release Act* (1992) sets out CSC's mandate, which is to contribute to the maintenance of a just, peaceful, and safe society.

7.2 CSC is also guided in the delivery of its services by a number of acts and regulations, such as the *Canadian Charter of Rights and Freedoms*, the *Canadian Human Rights Act*, the *Criminal Code*, the *Privacy Act*, the *Access to Information Act*, the *Transfer of Offenders Act*, and the *United Nations Standard Minimum Rules for the Treatment of Prisoners*. As with all government departments and agencies, CSC must comply with the *Financial Administration Act* and follow Treasury Board policies and guidelines. Further, CSC has developed its own internal policies and procedures known as Commissioner's Directives.

7.3 CSC has a presence from coast to coast. The Agency provides custody and care to its inmate populations of about 14,000 men and 500 women in 58 institutions and 16 community correctional centres. It also supervises offenders after release, through 71 parole offices.

7.4 In the 2007–08 fiscal year, approximately \$570 million of CSC's budget of \$1.87 billion was spent on guarding prisoners (security services), while costs for food, cleaning, and clothing (institutional services) were almost \$72 million.

7.5 The Agency employed over 15,000 people in the 2007–08 fiscal year. The Agency's headquarters is in Ottawa, where it performs overall planning and policy development, while five regional offices implement CSC activities in institutions, community correctional centres, and parole offices.

7.6 Correctional Service Canada faces a number of challenges. They include a changing and more complex inmate population profile; increases in non-discretionary costs such as salaries, utilities, food, and medical services; and increasing costs to maintain aging buildings and infrastructure.

7.7 In its 2007–08 *Report on Plans and Priorities*, CSC stated that it had exhausted its ability to reallocate resources to meet these current and future challenges. It noted that, during the past few years, it has had to constantly review and adjust funding allocations and expenditures to meet its most urgent needs. At that time, CSC reported that it had

curtailed some internal expenditures, including those for non-essential training, equipment purchases, travel, professional service contracts, and staffing actions. The changing offender profile and the escalating costs have, according to CSC, placed it in an ever more challenging position, and it recognizes that it will need to focus sharply on its key priorities to deliver the greatest possible results and value for money.

7.8 In April 2007, the Minister of Public Safety formed an independent panel to review CSC operations as part of the government's commitment to protecting Canadian families and communities. The CSC Review Panel's mandate was to advise the minister on a number of important areas. The Review Panel submitted its report, *A Roadmap to Strengthening Public Safety*, in October 2007 and made several recommendations in five key areas to help CSC offer greater public safety. The key recommendations were the following:

- Emphasize offender accountability by recognizing that rehabilitation needs to be a shared responsibility of CSC and the offender.
- Eliminate drugs from prisons.
- Emphasize offender employability and employment by introducing a more structured work day with a proper allocation among work, education, and correctional programs.
- Change the physical infrastructure to regional complexes (with four to five penitentiaries within one location).
- Eliminate statutory releases, where offenders are automatically eligible for release after a certain period, and instead require offenders to earn their parole.

7.9 Since this review, in its 2008 Budget, the federal government announced an additional \$122 million over two years to begin implementing a new vision for the federal correctional system. This includes modernizing the physical infrastructure with a more efficient and effective design and construction, as well as streamlining operations.

Focus of the audit

7.10 We examined whether Correctional Service Canada managed resources and goods used in providing security services and the procurement and delivery of institutional services (food, cleaning, and clothing) with sufficient attention to **economy**; and whether CSC managed, designed, and provided these services with sufficient

Economy—The right amount of resources, of the right quality, delivered at the right time and place, and at the lowest cost.

Efficiency—The minimum resource inputs to achieve a given quantity and quality of output.

attention to **efficiency**. Our audit reviewed CSC's activities for the past four fiscal years (2004–05, 2005–06, 2006–07, and 2007–08).

7.11 More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Observations and Recommendations

7.12 In its 2007–08 *Report on Plans and Priorities*, Correctional Service Canada (CSC or the Agency) stated that it had exhausted its ability to reallocate resources to meet current and future challenges, such as the changing characteristics of the inmate population and rising non-discretionary costs. It noted that, during the past few years, it has had to constantly review and adjust funding allocations and expenditures to meet its most urgent needs. Consequently, we expected that senior management would have required a significant analysis and review of expenditures in the key areas of inmate care and security services in order to find savings that could then be allocated to other priorities.

7.13 In the provision of custody and care to inmates, we examined whether senior management ensured that institutional services were being managed with economy and efficiency and that corrective action was taken when necessary. We examined the information and analysis provided to CSC senior management on selected institutional services and on the deployment of correctional officers and their overtime. We then reviewed how senior management assessed and gave direction on these areas. Finally, we looked at whether CSC senior management exercised key stewardship functions in directing and monitoring CSC activities to ensure that institutional services and programs were being managed with sufficient attention to economy and efficiency.

Food, cleaning, and clothing services

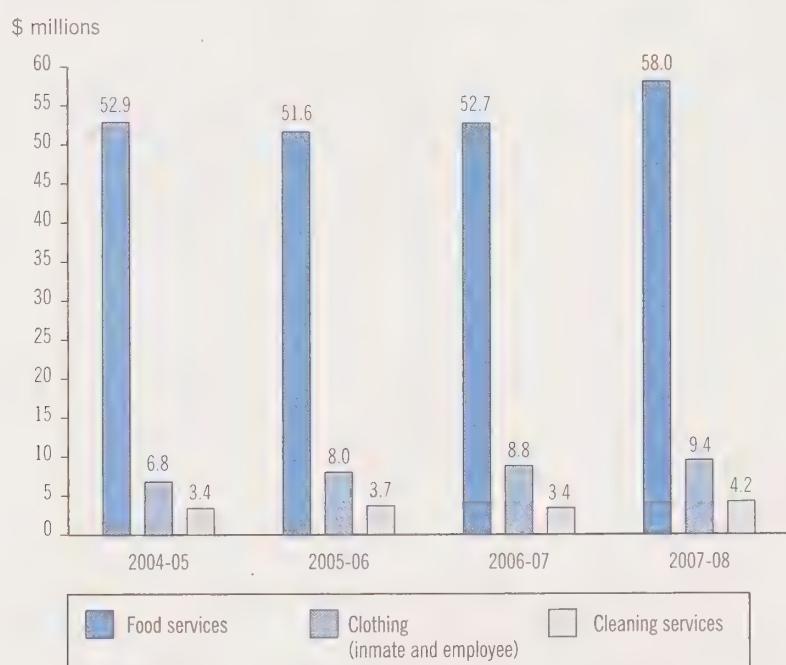
7.14 As CSC has a responsibility to provide for the basic needs of offenders and to provide uniforms for correctional officers in each of its 58 institutions, this is an important opportunity for CSC to manage its services with economy and efficiency. In order to deliver food, cleaning, and clothing services, CSC purchases a large volume of goods across the country. This volume has continued to increase in recent years (Exhibit 7.1). These three services cost a total of approximately \$71.7 million in the 2007–08 fiscal year.

7.15 We expected to find that CSC had developed national policies, standards, procedures, and practices to promote the economical management of food, cleaning, and clothing services. Specifically, we

expected to find that CSC—like other organizations that purchase these types of goods in large quantities—had performed needs, options, and cost-benefit analyses.

7.16 Further, we expected to find that CSC had developed ways to monitor the economy of procurement. Finally, we expected to find that CSC had taken steps to identify cost savings and was taking corrective action where appropriate.

Exhibit 7.1 Expenditures on food, cleaning, and clothing services have increased



The cost of food services includes food and related costs.

The costs of cleaning services and clothing services include only the cost of purchases and related costs.

Source: Correctional Service Canada

7.17 In order to assess the extent to which CSC was managing the purchases of goods economically, we reviewed available directives, guidelines, and practices, as well as how much monitoring was done at the national, regional, and institutional levels. We also requested information from all 58 institutions on the extent to which they considered economy when purchasing food, cleaning, and clothing products.

7.18 With the exception of clothing, we found that CSC had not analyzed its needs at the national level to determine the required overall demand for goods. Our questions to institutions found that

they conduct their own needs analyses, but that they rarely document their analyses or decisions. Needs analyses for food, cleaning, and clothing were based on different factors:

- for food services, a pre-determined daily allowance and the inmate population;
- for cleaning services, the size of institution, historical data, and experience; and
- for clothing services, historical data on the number of staff and on inmate turnover.

Because each institution is developing its needs analyses independently and this information is available only at the local or regional level, CSC is unable to properly analyze its overall needs and how they might be met more economically.

7.19 We found that many procurement decisions were left to the institutions, resulting in varying procurement practices across the country, with no assurance that these decisions are the most economical. We found that there was a lack of national guidance on economical procurement of goods. Given the volume of purchases, we expected that CSC would be looking for opportunities to save money while obtaining the best value.

7.20 CSC also told us that it uses competitive processes and standing offers to guide the procurement of food, cleaning, and clothing services. However, standing offers are not being used consistently, so CSC may not be purchasing goods in the most economical manner. Further, the Agency does not monitor whether the standing offers it does have in place produce the desired savings.

7.21 We also found that CSC has not sufficiently analyzed its needs to determine its optimal inventory of food, cleaning products, or clothing. Holding too much or too little inventory costs extra. We found no guidance on inventory levels and that most decisions were made by each institution. We found no evidence to suggest that CSC was looking at options to reduce inventory management costs.

7.22 Our findings on the economy and efficiency in purchasing and distributing food, cleaning, and clothing services are presented in detail below, with one overall recommendation appearing at the end of this Food, cleaning, and clothing services section.

Insufficient attention is paid to economy in purchasing food and cleaning supplies

7.23 Food purchases. CSC allocated a standard amount of \$4.47 per inmate per day for food in the 2007–08 fiscal year. However, CSC did not provide a rationale to support this amount, nor does the amount include the full costs of food and its preparation, which regularly exceeds \$9.00 a day. Institutions face a challenge in providing meals for religious, medical, and vegetarian diets within their budget, as some of these special meals can cost close to \$20.00 per day. Since 2003, CSC conducted two internal reviews of food services that found that the number of inmates demanding special diets has increased in recent years, leading to increased costs.

7.24 While CSC tracks food costs against budgets and the inmate per-day allowance, it does not perform sufficient analysis on the cost of food. We found that CSC had performed limited analysis in its two internal reviews on the cost of food services, but this was not sufficient to analyze costs or alternatives. Regardless of whether CSC adopts a centralized or decentralized purchasing approach, without this analysis, CSC will not be able to identify potential savings. As a starting point, CSC needs to know what kind of food is being purchased and at what cost. CSC does have detailed information of purchases at a local or regional level, but this information is not available for analysis at the national level. CSC needs to analyze its needs for food in terms of quality, volume, and cost before identifying potential savings.

7.25 CSC also needs to know its food suppliers and the terms of its purchasing agreements to assess if it can achieve savings from economies of scale and fewer contracts. We found that CSC has devoted limited attention to economy in its purchase of food. It has missed opportunities for savings, and its purchasing processes are behind those of other sectors. For example, in our discussions with senior procurement managers of hospitals and the hotel industry, we were told that significant savings—as much as 10 percent—had been achieved through systematic monitoring and analysis of food purchases, including contract agreements (Exhibit 7.2).

7.26 CSC also needs to explore other opportunities for savings in the purchase and preparation of food. For example, CSC currently employs a dietitian in each region to ensure that menus meet the requirements of *Canada's Food Guide*. CSC officials told us that regional menus were needed to meet the regional tastes of inmates. However, the 2003 review performed by CSC found that regional menus were amended for use in each institution. With sufficient analysis, CSC could explore the possibility of a more standard menu to achieve

savings through volume discounts and a reduction in overhead. Further, special diet menus could be developed nationally. Even if costs were reduced by only 15 cents per meal, given the 14.7 million meals provided to inmates by CSC per year, this could amount to savings of approximately \$2 million per year.

7.27 We also found that CSC does not know the overall cost of preparing food in-house and has not analyzed whether this is more economical than other alternatives, such as contracting for food services. Such an analysis should include the full costs of food services, not only the direct cost of food purchases and the salaries of individuals used in food preparation, but also the cost of other labour, supplies, and equipment and its maintenance. Labour should include all or portions of work hours spent by people who support those who prepare food, from inmates to dieticians to human resources staff. Equipment would include everything used in preparation and delivery, from freezers and stoves to the heated trolleys used to deliver trays to cells in maximum security institutions, which do not use cafeterias. Supplies would include everything from napkins to trays, and from dishes to utensils. It is only with this type of information that the costs of alternatives can be properly compared.

7.28 Cleaning product purchases. As with food, we found that most purchasing decisions for cleaning products were made by each institution. The budget for cleaning supplies is based on previous years' experience and the institution's square footage. We also looked at whether CSC had implemented environmentally friendly practices to procure cleaning supplies. In the questionnaire sent to all institutions, some indicated that in their procurement decisions, they consider environmentally friendly products where prices are acceptable.

Exhibit 7.2 Hospitals and hotels have achieved significant savings in procurement

As part of our audit, we visited senior procurement managers of Ottawa-area hospitals and national hotel companies. We found that each of these sectors had modernized its procurement practices to achieve significant savings.

Ottawa-area hospitals have banded together to create a joint venture to provide food services to each hospital. While the food provided meets the quality needs of each institution, the hospitals report having achieved significant savings by increasing their purchasing power through economies of scale. In addition, they are decreasing purchasing costs by negotiating longer-term contracts (with opportunities to renegotiate the price) with fewer suppliers.

In the hotel industry, representatives from hotel chains reported purchasing savings of more than 10 percent while meeting their quality requirements. They achieved this through progressive negotiations on price, paying only for the products and services required, and through economies of scale and longer-term contracts.

7.29 CSC regularly uses inmate labour to clean its institutions and has established some monitoring controls for cleaning services (such as using cleaning checklists and assessing inmate performance). There was no evidence to suggest that headquarters was monitoring the volume of cleaning products used or their cost.

7.30 We found that CSC was not performing sufficient analysis to determine if the current cleaning product procurement process is the most economical. In our opinion, based on the experience of the private sector, savings will likely be found through fewer contracts of higher volume.

Economy of clothing purchases and efficiency of its distribution need to be reassessed

7.31 CSC supplies clothing for its inmates and correctional officers. Depending on the article of clothing, purchases are controlled nationally or by individual institutions.

7.32 Prison clothing for more than 500 female inmates and civilian clothing for all inmates prior to their release is purchased locally by institutions, amounting to \$607,000 in the 2007–08 fiscal year. Clothing for roughly 6,200 correctional officers and for about 14,000 male inmates is purchased centrally from national suppliers or from **CORCAN**, a CSC-run business employing inmates. The value of national supplier contracts has increased from \$2.8 million in the 2004–05 fiscal year to almost \$5 million in the 2007–08 fiscal year, and CORCAN purchases have increased from approximately \$2.2 million to \$6.8 million in the same period.

7.33 CSC has also centralized the distribution of male inmate and correctional officer clothing from its national depot in Laval, Quebec. The cost of operating the depot was over \$1 million in the 2007–08 fiscal year, including salaries.

7.34 **Economy of clothing purchases.** In looking at the current purchasing and distribution practices for clothing, we expected that CSC would be able to demonstrate that its procurement practices were economical because it purchased a suitable quality at the lowest price. We also expected that its choices regarding quality and cost would be documented and that current procurement practices would be reviewed regularly to ensure that clothing purchases resulted in the best value.

7.35 Unlike its food purchases, CSC has used national contracts for its clothing purchases. As these result from a competitive process, they provide cost savings through volume purchases. We found that CSC

CORCAN—a special operating agency of CSC where inmates produce goods and services that meet private sector standards. Products range from clothing to office furniture. CORCAN is designed to provide offenders with employment and skills training at 36 institutional sites and to aid in their safe reintegration to society. CORCAN provides CSC operations with a variety of items, ranging from T-shirts and jeans for inmates to shirts for officers, cell furnishings, and food produced on prison farms in certain regions.

reviewed how it purchased officer clothing in 1996, 2007, and 2008. The latest study examined a number of options for delivering officer clothing, comparing CSC's current procurement practice against other government departments' officer clothing practices. CSC has recently decided to purchase its officer clothing from the private sector.

7.36 We found that according to a CSC policy on procurement, CORCAN goods and services may be priced as much as 15 percent higher than market prices. The additional charge is designed to support CORCAN's program objectives of providing training and employment to inmates. While we recognize the importance of CORCAN's mandate, we found that CSC had not done any analysis to determine whether the premium paid for CORCAN products and services should be 5, 15, or 25 percent, for example. In addition, CSC could not provide us with a list of goods purchased that were above market price. While CSC has performed limited analysis of how it purchases officer clothing, we found no similar analysis for inmate clothing.

7.37 **Efficiency of clothing distribution.** We expected that CSC's method of distributing clothing would be the most efficient. We found that the last time that CSC reviewed its current clothing distribution process was in 2001. CSC has not compared its distribution practices with industry practices. In our review of the distribution process, we found numerous checks and repackaging of items, calling the efficiency of the packaging process into question. Further, in our interviews with institutions, we found that when clothing items did not arrive on time, some institutions purchased clothing from local suppliers. CSC could not provide us with the value of these locally purchased items.

7.38 **Recommendation.** Correctional Service Canada should collect, at a national level, sufficient information on the volume and cost of its purchases and their use by location. It should use this information to perform in-depth analysis of its procurement of its food, cleaning, and clothing services, and regularly examine potential alternatives and improvements to its current practices. Further, it should examine the cost-saving opportunities based on the volume of its purchases.

The Agency's response. Correctional Service Canada (CSC) agrees that further analysis of the costs of procurement and delivery of food, cleaning, and clothing services will be beneficial.

CSC will enhance its analysis of its institutional service delivery. More specifically, within the next 18 months CSC will

- collect sufficient information from institutions to facilitate systematic, in-depth analyses of current procurement practices

and of its institutional service delivery model at the national level. This includes a review of best practices and, as required, a comparison to industry norms and other correctional jurisdictions;

- review inventory management practices and optimal inventory levels;
- review its food service distribution model and explore the use of national menus;
- review the distribution model for clothing;
- reassess premiums attributed to CORCAN goods and services;
- continue to collaborate with Public Works and Government Services Canada to develop a national procurement strategy, including the use of longer-term and national contracts for certain commodities; and
- establish national guidelines on the economical procurement of goods.

Finally, the modernization of the physical infrastructure proposed by the CSC Review Panel, which is also a key theme of CSC's Transformation Initiative in response to the Panel's recommendations, presents further opportunities to explore creative and innovative ways for CSC to streamline service delivery, to share common services, and to realize more efficient and effective procurement practices.

Management of correctional officers

7.39 Correctional Service Canada (CSC) offers security services to provide a safe and secure environment for employees and inmates. CSC's budget for security services consists primarily of salaries and overtime for some 6,200 correctional officers. Security services cost approximately \$570 million in the 2007–08 fiscal year, accounting for about 30 percent of CSC expenditures that fiscal year.

7.40 In 1998, CSC received an additional \$40.5 million to hire 1,000 more correctional officers to make its institutions healthier, safer, and more secure. Specifically, the additional correctional officers were to provide CSC with greater flexibility in dealing with absences that had been filled either by using term and casual employees or by overtime. The Agency expected that absenteeism rates per correctional officer would decline and that overtime costs would be reduced by more than \$6 million per year. We examined whether CSC has since paid sufficient attention to economy and efficiency in managing its correctional officers.

Model for efficiency of deployment of correctional officers is not yet in place

7.41 Between the 2002–03 and 2007–08 fiscal years, the cost of security services increased by approximately 42 percent while the number of correctional officers and inmates remained relatively constant. Given the amount and increase in security services, we examined whether CSC’s allocation of correctional officers provided an efficient deployment of staff.

7.42 We found that the deployment model CSC is developing uses a formula to allocate its correctional officers within its institutions. The model’s objective is to use national standards to make the allocation more consistent and therefore more efficient.

7.43 For the deployment model to provide an efficient result, we expected that the proposed model considered the institutions’ floorplans and security level and the inmates’ demographic profile, which all affect the need for correctional officers. We expected that CSC would test its deployment model and fix any problems before full implementation.

7.44 CSC is still developing its deployment model. It is currently studying the CSC Review Panel recommendations, such as staffing observation towers and increasing surveillance for drugs, to determine their impact.

7.45 The deployment model estimates the minimum number of officers required to maintain a safe and orderly medium security institution. CSC intends to adjust the model for the operational requirements of each security level; the particulars of the institutions; and the number, gender, and profile of inmates. However, we found that CSC had not planned sufficient analysis of the model or performed pilot or other testing, which could affect its prospects of success. We noted that CSC did not perform any analysis on employee leave and overtime and its potential impact on the deployment standard. We found no evidence to suggest that CSC had conducted a cost-benefit analysis or looked at other alternatives to the proposed deployment model.

7.46 Recommendation. Correctional Service Canada should conduct sufficient analysis to determine that its deployment of correctional officers results in the most economic and efficient result.

The Agency’s response. Correctional Service Canada (CSC) agrees and is committed to further analyzing its draft deployment standards prior to full implementation. This ongoing analysis will also take into account the impact of employee leave and overtime to ensure that the

most economic and efficient use of substitute relief positions for correctional officers is achieved.

While this audit was being finalized, the draft deployment standards were implemented in Mountain Institution in the Pacific Region. Lessons learned are being incorporated into the draft deployment standards.

Additionally, CSC is assessing institutional differences and developing site specific standards. As needed, it is also incorporating changes to the draft deployment standards that result from the implementation of CSC Review Panel recommendations.

The deployment standards, once finalized, will provide more flexibility and availability to offset overtime costs due to staff absences. In addition, CSC is finalizing a Commissioner's Directive on the National Standards for the Deployment of Correctional Officers that includes an oversight committee responsible for ensuring the economic and efficient deployment of correctional officers. Implementation is planned for April 2009.

Furthermore, CSC is developing an automated National Scheduling and Deployment System for security services to provide more consistency in scheduling and deployment practices. Full implementation is expected by September 2009.

The Agency has not paid sufficient attention to economy in the management of overtime

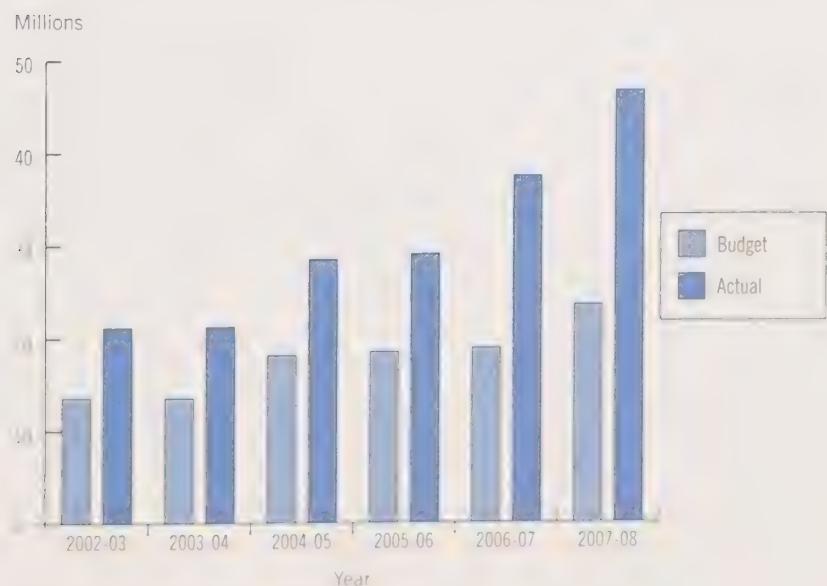
7.47 CSC allocates a percentage of its overall security budget for overtime, which is seen as an operational requirement. Since the 2002–03 fiscal year, overtime costs have increased (Exhibit 7.3).

7.48 We audited overtime at CSC as part of our November 2006 chapter on Proper Conduct of Public Business—Public Safety and Emergency Preparedness Agencies. As part of the 2006 audit, we questioned why a small number of employees worked a disproportionate amount of overtime and whether there was a potential for overtime abuse. CSC managers cited understaffing, scheduling deficiencies, the need to respect collective agreements when granting leave, and workload issues as key causes of overtime. In addition, they recognized possible abuse and stated that they were already monitoring certain employees. While the audit did not examine the total volume of overtime, it did find that the Agency had very good systems to control individual overtime abuse in cases where there were large amounts of both overtime worked and leave as taken.

7.49 At the time of our current audit, we found that the total volume of overtime was still high and overtime expenditures continued to increase. Given that overtime is paid at a rate of one-and-a-half to two times the regular hourly rate, the current audit examined whether overtime is managed economically. We expected that CSC would have a corporate policy on overtime outlining the roles and responsibilities of management and of employees; conditions under which overtime was allowed; and a process for approving, allocating, monitoring, and reporting overtime. We expected that strategies would be in place to curtail excessive overtime and to ensure that overtime was pre-approved, earned by the employee, and recorded in a human resource information system on a timely basis. We also expected that at all levels of the organization, overtime costs were being tracked and management was receiving and acting on regular reports on overtime.

7.50 For the past six years, actual overtime costs have substantially exceeded their budgeted amount. CSC told us that it manages salary and overtime as one budget category, and that additional overtime expenditures have been offset by reduced salaries due to vacancies or understaffing. We found that CSC regularly reported the amount spent on overtime; however, we found no evidence to suggest that CSC had analyzed the impact that overtime would have on its operations.

Exhibit 7.3 Correctional officers' overtime budgets have been consistently underestimated



Source: Correctional Service Canada

7.51 It was beyond the scope of this audit to determine whether certain programs or activities had been cut to compensate for the increase in overtime expenditures, but our review found that spending on rehabilitation programs, training, and building maintenance has been less than the budgeted amount.

7.52 Responsibility for managing overtime. We recognize that some overtime is necessary to deliver security services; however, we found no overall strategy or policy designed to control the amount of overtime. CSC had developed a guide in 2006, entitled *Management of Overtime: Roles and Responsibilities*, which outlines management responsibilities, but the guide does not address the need to control overtime. We also noted that overtime costs and hours are monitored at a national level, which would provide CSC with the information necessary to take corrective action.

7.53 We found that CSC has issued a memorandum requiring all sites to monitor overtime-related costs. Reasons for and costs of overtime are being monitored by the institutions and are subsequently submitted to the region and then to national headquarters. Key factors that increase overtime are officers being on unscheduled leave or on training, the need for officers to escort inmates to hospitals and courts, the need to keep certain criminal groups separate from others, and a lack of money in the salary budget for additional positions. Overtime is also affected by vacant or unstaffed positions, and the need to increase staff in other posts in the institution as a result of needing to comply with workplace safety requirements.

7.54 In looking at the allocation of correctional officers at certain institutions, we noted that each duty roster (shift schedule) contains a small number of officers in substitute relief positions who are assigned to posts where people are absent. However, these are often not enough to eliminate the need to call in additional staff on overtime in order to maintain minimum staffing numbers.

7.55 CSC has, as far back as 1981, undertaken several reviews on overtime. It has implemented a number of initiatives such as substitute relief positions and attendance awareness programs (which seek to reduce absenteeism), thereby reducing the need for overtime.

7.56 We found that some regions have implemented a number of initiatives to address the situation, such as attendance awareness programs. A national initiative is the introduction of new shift schedules for correctional officers that are intended to maximize substitute relief positions and minimize vacancies in the duty roster. However, we found no evidence to suggest that the new schedules

have led to greater economy or reduced overtime expenditures. We found that certain institutions expressed concern that the new shift schedules may in fact result in increased overtime expenditures as they may not match resource availability.

7.57 Authorizing and recording overtime. We expected that CSC had controls in place to ensure that overtime was pre-approved, worked by the employee, and recorded accurately in a human resource information system. The pre-approval normally has to be recorded somewhere or else there is no evidence that overtime was authorized.

7.58 We found that pre-approval typically consists of a phone call made to the employee when a vacancy is created in the duty roster. Once overtime is worked, the information is then recorded on an overtime summary sheet, approved by the correctional manager, and entered into its human resource management system (HRMS). However, a 2006 CSC study on leave and overtime management found this process was inconsistent and each region maintained different practices around pre-approval and data entry.

7.59 Options to reduce overtime. We found that given the nature of CSC's business, there are limited options to minimize overtime. During our site visits, CSC officials told us that possible actions include double bunking (two inmates sharing a cell with bunk beds), the closing of a wing or locking down the institution (curtailing inmate movement and exercise, and eliminating visitors), or limiting the number of overtime hours that an employee may work within a week or month. However, some of these measures may result in other problems if they are used for an extended period. We found that institutions were looking to find savings through the use of community volunteers to escort minimum security inmates to hospitals. In the day-to-day management of the institution, managers may develop mechanisms to reassign staff or change the duties of a post, thereby averting overtime expenses. However, we did not find that CSC is systematically finding and implementing strategies to reduce overtime.

7.60 A more permanent way to reduce overtime would be to increase the number of staff. However, adding staff in an organization where overtime may be seen by some as an entitlement may lead to more overtime. We found that CSC had not performed sufficient analysis to determine what amount of overtime, compared with what number of staff, would provide the best workforce for the least cost. This lack of analysis could harm the proposed deployment standard if the required number of correctional officers does not properly take into account the current trends in overtime.

7.61 Incentives to control the cost of overtime. The use of management incentives could reduce the need for overtime and control its cost. Incentives for correctional staff are limited as CSC must abide by the terms of their collective agreement. One incentive would be to include the management of overtime when measuring the performance of wardens and senior management. We found that the Agency has not made managing overtime a priority; there were no management incentives to keep overtime costs low nor was there evidence to demonstrate that there were consequences for not managing overtime within the prescribed budget.

7.62 In some cases, disputes arise concerning overtime, such as whether the chance to work overtime is fairly distributed among employees. These disputes are often settled by the grievance process in accordance with the collective agreement for corrections officers. We examined overtime grievances in the past three fiscal years. We found that CSC does not monitor all overtime grievances, particularly those resolved locally. For those grievances resolved nationally during the 2005, 2006, and 2007 calendar years, approximately 21 percent related to overtime issues. We reviewed files available nationally, regionally, or locally for 93 grievances concerning overtime. The resolution of these grievances usually results in a payment to the grievor as though he or she had worked the overtime hours. Many of these cases result in two payments for the actual hours worked, both at time and a half or a higher rate: one payment to the grievor and one to the person who actually worked. Better information will allow management to better control the frequency of these grievances. Reducing the number of these cases could also be an element of each warden's performance agreement.

7.63 Recommendation. Correctional Service Canada should systematically collect and analyze complete information to properly manage its overtime expenditures. It should examine reasons that overtime is incurred and analyze and implement decisions to reduce the cost of overtime through alternatives to overtime, proper controls, and incentives.

The Agency's response. Correctional Service Canada (CSC) agrees that the ongoing monitoring of overtime expenditures is essential to ensuring the effective management of its resources with due regard for economy and efficiency.

CSC will enhance its monitoring and analysis of expenditures and alternatives to overtime, as well as the financial and performance

information related to all aspects of its operations, which includes overtime expenditures.

As of August 2008, the quarterly monitoring process related to the management of overtime expenditures was enhanced to ensure that the CSC Executive Committee and the National Finance Committee are provided with more detailed information and enhanced analysis at the national level.

Further, the Committee on Correctional Officer Deployment Standards will be established by April 2009 and be responsible for ensuring economic and efficient practices related to the deployment of correctional officers. The development of a nationally accepted model for monitoring overtime at the institutional level will also form part of those responsibilities.

Finally, performance agreements for all executives will continue to include ongoing commitments related to the sound stewardship of financial resources and effective people management. Beginning in fiscal year 2008–09, the Performance Assessment Committee will further consider how wardens and senior managers manage their financial resources, including the proper management of overtime.

Employee leave records are not recorded correctly

7.64 As part of our examination of factors that may result in additional overtime, we looked at the impact of unrecorded leave on overtime. This leave could be for vacation, illness, or family-related concerns. If leave is not properly recorded, employees may take more leave than they are entitled to, which leads to additional overtime. We expected that all absences would be properly recorded in the Agency's human resource management system (HRMS). We examined detailed roster schedules to identify all absences for the month of May 2007 in eight selected institutions and compared these absences with the system records for the same time period. We based our analysis on information extracted from the HRMS in late March and early April 2008.

7.65 We found that a large proportion of correctional officers who were absent did not have their leave recorded in the HRMS. Among the institutions we examined, between 3 and 35 percent of absences were not recorded in the HRMS, suggesting a systemic problem with recording leave.

7.66 Certain CSC regions had previously identified this issue and conducted internal studies. In 2003, a study of Saskatchewan

Penitentiary found that 11 percent of correctional officers' absences were not recorded in the HRMS. In 2007, the Ontario region found that, in some institutions, 33 percent of absences had not been recorded. CSC has not examined the extent of the problem nationally nor estimated its economic impact. From our examination of eight institutions for the month of May 2007, we found that 375 days of leave had not been recorded. The cost of this unrecorded leave is estimated at \$100,000. If this analysis were applied to all 58 institutions for the entire year, the result could be in the millions of dollars.

7.67 Since we advised CSC of the preliminary results of our audit, it has begun to take action. The eight institutions conducted their own analyses and determined whether adjustments and/or recoveries from employees were needed. All institutions have been requested to review the recording of employee absences for the 2007–08 fiscal year.

7.68 Recommendation. Correctional Service Canada should ensure that all employee absences are correctly recorded in its human resource management system.

The Agency's response. Correctional Service Canada (CSC) agrees and is committed to ensuring all employee absences are correctly recorded in its human resource management System (HRMS).

As mentioned in the report, CSC has taken immediate action to address the issue of incorrect recording of employee absences, including reconciling data in the institutional rosters with that in HRMS.

Furthermore, all national headquarters sectors, regions, and institutions were instructed in July 2008 to review all employee absences for 2007–08. Where needed, appropriate action will be taken to ensure the accuracy and completeness of all employee absence information. These actions will include, if necessary, appropriate measures to address any non-compliance on the part of CSC personnel with the national directives on the proper recording of employee leave.

In addition, a quarterly monitoring process has been initiated across the organization to ensure ongoing accountability for the proper recording of employee absences.

A follow-up review of the recording of employee absences will also be conducted by CSC Internal Audit Branch by the end of 2008–09.

Finally, CSC will implement an automated National Scheduling and Deployment System by September 2009 that will interface directly with HRMS, thereby strengthening controls around the recording of leave transactions.

Senior management direction for economy and efficiency

7.69 In the provision of custody and care to inmates, we expected that CSC senior management would pay sufficient attention to economy and efficiency. As previously mentioned, this is most important in CSC's case, given that it told Parliament that it has exhausted its ability to reallocate existing resources. We expected that management at the highest level would have required staff to perform significant analyses and reviews of expenditures. We examined the information and analysis provided to CSC senior management on selected institutional services and on the deployment of correctional officers and their overtime. We then reviewed how senior management assessed and gave direction on these areas. Finally, we examined whether senior management had assurance that institutional services were being managed for economy and efficiency and that corrective action was taken when necessary.

7.70 The primary focus of CSC is to contribute to public safety by rehabilitating offenders, while exercising reasonable, safe, secure, and humane control. CSC reported in its 2007–08 *Report on Plans and Priorities* that the changing nature of the offender population is making it more difficult to maintain order in the institutions, though the rate of major security incidents has remained relatively stable over the past five years. CSC reports that inmates are younger, more violent, and there are more gang affiliations, which require more effort and resources to keep inmates separated from each other. We found that CSC has acted on past audit recommendations (1996, 1999, and 2003) to track, monitor, and report to senior management on indicators related to the inmate population, such as escape rates and violent incidents.

The Agency has defined responsibilities for the delivery of its services but performs insufficient monitoring

7.71 We expected that CSC had defined the roles, responsibilities, and accountabilities at all levels of management responsible in order to promote efficient and economical delivery of services.

7.72 We noted that national headquarters is responsible for setting policy direction while wardens are responsible for everything that happens within their institution, including the budget and the day-to-day management of institutional and security services.

7.73 Senior management does receive some assurance on economy and efficiency from internal audits. We reviewed the internal audits for the past three years and found that 8 of a total of 19 reports mentioned economy and efficiency. We noted that one internal audit focused on economy or efficiency in leave and overtime management, and that

management tabled an action plan in 2006. The action plan addressed roles and responsibilities for the management of leave and overtime. However, management did not endorse the recommendations to improve the information in the human resource management system, as they felt the changes would be too costly.

7.74 We found that individual institutions have developed some good practices, but there is no systematic sharing of these practices so that all institutions can improve their results. There was little direction provided by the national headquarters to institutions on how to manage their operations more economically and efficiently.

7.75 To allocate resources to its regions and institutions, CSC primarily uses the profile and number of inmates, the number of staff and their rates of pay, and the size of the institution. It requests that each region provide a cost-benefit analysis for any changes to previous years' budgets. However, we found that this information was not always provided. CSC uses some cost estimates calculated on a per-inmate basis, such as food, to deliver programs and services. The result of this exercise provides the budgets to individual institutions and regions.

7.76 We found that living within budgets was the primary financial control across all levels of the organization. A process is in place that requires variances greater than 3 percent to be justified and explained locally, regionally, and to senior management at headquarters. However, this justification usually occurs after the fact. CSC senior management receives regular reports that compare actual expenditures with budgets.

7.77 We found that CSC focuses much of its effort on safety and security. It does not pay sufficient attention to economy and efficiency. We found that the mandates of senior management committees included setting strategic direction and corporate policy and providing advice, but none of them, except the departmental audit committee, included responsibilities for economy and efficiency, such as setting targets, monitoring, and taking corrective action. We found that none of the performance information currently being tracked looked at economy or efficiency of operations. Further, we found little incentive to manage economically and efficiently as this requirement was not included in senior management performance agreements.

7.78 Until recently, CSC's management has devoted much of its time and energy to staying within its appropriation from Parliament. It found itself looking to reallocate existing resources to meet urgent funding requirements, and curtailed some programs in order to balance

the books. With its focus on maintaining public safety, CSC has not devoted sufficient attention to economy or efficiency in its operations.

7.79 CSC reports annually to Parliament on its plans and priorities, and has a good system in place to monitor its priority commitments. In its 2007–08 *Report on Plans and Priorities*, CSC stated that it had exhausted its ability to reallocate existing resources to meet its challenges. We believe that, due to the lack of sufficient analysis and attention paid to economy and efficiency of its operations as noted in this report, CSC cannot support its position that it could not reallocate resources to meet its challenges.

7.80 Recommendation. Correctional Service Canada senior management should ensure that it receives and reviews suitable analysis and performance information to allow it to monitor and make decisions for its institutional and security services with sufficient attention to economy and efficiency. The Agency should identify and analyze opportunities for cost savings, and for planning, implementing, monitoring, and improving the delivery of these services with due consideration to economy and efficiency.

The Agency's response. Correctional Service Canada (CSC) agrees that ongoing monitoring and analysis of expenditures is essential to ensuring the effective management of its resources with due regard for economy and efficiency.

In 2008–09, CSC initiated a Strategic Expenditure Review process, which includes a comprehensive analysis of all programs and activities to identify efficiencies and potential reallocation and reinvestment opportunities.

Building on the efforts of this strategic review, CSC will enhance its ability to manage its institutional and security services with sufficient attention to economy and efficiency by

- ensuring that economy and efficiency are included as key management considerations in information presented to CSC's Executive Committee and sub-committees (as of November 2008);
- updating, as required, the terms of reference for key management committees to reflect the need to monitor and manage for economy and efficiency (by March 2009); and
- reviewing CSC's performance measurement framework and including, as required, measures for economy and efficiency (by March 2009).

Moreover, as part of its Transformation Initiative, CSC senior management is committed to analyzing and pursuing alternatives that present greater efficiencies and effectiveness for the federal correctional system.

Conclusion

7.81 We found that Correctional Service Canada has not paid sufficient attention to economy in the resources and goods used in the provision of its security services and the procurement of its food, cleaning, and clothing services. It has not performed sufficient analysis at the national level to have assurance that its procurement practices and decisions lead to the desired quality of goods and services being provided at the least cost. The Agency is not taking advantage of potential savings from its purchasing volume. Individual institutions have developed some good practices, but there is no systematic sharing of these practices so that all institutions improve their results.

7.82 We found that Correctional Service Canada has not demonstrated that its security and institutional services (food, cleaning, and clothing) are managed, designed, and provided with sufficient attention to their efficient delivery, although it is taking steps to ensure that the deployment of correctional officers is more consistent among institutions. However, this proposed deployment model has not yet been tested or evaluated for its impact on the need for overtime. Finally, there are opportunities to make the inventory management and the distribution of institutional goods more efficient.

7.83 Overtime costs have continued to increase in recent years, even though the number of prisoners and the reported number of violent incidents has remained relatively stable. Correctional staff point to the changing offender population and therefore the need to keep certain criminal groups away from others as one reason for increased overtime. Other reasons include the need for training, the escorting of prisoners to appointments and hospital, and staff use of holidays and sick leave. We found no regular analysis to determine whether overtime was the most economical option versus the hiring of additional personnel. Each individual institution monitors its overtime differently.

7.84 During the audit, while looking at some of the factors contributing to the increase in overtime, we found that leave taken is not consistently updated in employees' leave records. For the month tested, we found as much as one third of absences in some institutions

were not recorded in the human resource management system. This unrecorded leave could mean that more leave is taken, which could lead to additional overtime.

7.85 Correctional Service Canada allocates its budget to its regions and institutions, and then monitors compliance and expenditures to ensure that its overall budget is not overspent. It maintains good budget control throughout the organization. However, it does not collect the type of information it needs to systematically consider economy and efficiency in its management of the delivery of common services in its 58 institutions across the country. For the areas examined, we found that senior management does not receive sufficient performance information and analysis to determine whether procurement and service delivery are being managed economically and efficiently because CSC has not developed performance standards and measures in this area. CSC has not performed sufficient analysis to understand its costs, implemented and monitored suitable performance measures for economy and efficiency in its operations, or explored alternatives to identify potential savings. It has not systematically identified good practices and shared these throughout the Agency. Due to the lack of sufficient analysis, CSC cannot support its position that it has exhausted its ability to reallocate existing resources to meet its challenges.

About the Audit

Objectives

The objectives of the audit were to determine whether Correctional Service Canada can demonstrate sufficient attention to economy for the resources and goods used in the provision of its security services and the procurement and delivery of institutional services (food, cleaning, and clothing), and whether the Agency can demonstrate that these services are managed, designed, and provided with sufficient attention to their efficient delivery.

Scope and approach

The audit covered three key areas of Correctional Service Canada relevant to economy or efficiency:

- the procurement of food and cleaning products and the procurement and distribution of correctional officers' and male inmates' clothing;
- the delivery of security services through the allocation of correctional officers, including the payment of overtime; and
- senior management's monitoring and decisions relating to security services and food, cleaning, and clothing services.

The audit did not examine human resources management (other than the deployment of correctional officers and their overtime), health services, case management, CSC rehabilitation programs, CORCAN, accommodation (including housing, repairs, and maintenance), or the environment and sustainable development (except green procurement).

Audit work was conducted at CSC national headquarters, at the five regional headquarters, and at selected institutions, which represented a cross-section of security levels, locations, complexes, and inmate genders. Interviews were held with senior management at CSC national headquarters as well as regional offices and with wardens of correctional institutions. Documents, which included national and regional meeting documentation, internal audits, reports, studies, and other documentation provided by Correctional Service Canada, were collected and reviewed. We also reviewed information from all 58 institutions on procurement and inventory practices.

Criteria

Listed below are the criteria that were used to conduct this audit and their sources.

Criteria	Sources
Senior management attention to economy and efficiency	
<p>We expected Correctional Service Canada's senior management to have demonstrated that resources and goods used in the delivery of its institutional services are being managed with sufficient attention to economy.</p>	<ul style="list-style-type: none"> • <i>Auditor General Act, 7(2)(d)</i> • <i>Federal Accountability Act (2006), Part I.1 Internal Audit and Accounting Officers</i> • Treasury Board of Canada Secretariat, Management in the Government of Canada: A Commitment to Continuous Improvement (2005), page 9 • Treasury Board of Canada Secretariat, Management Accountability Framework, Stewardship, Round V (2007) • Commissioner's Directive, Materiel and Supply Management Services (2006)
<p>We expected Correctional Service Canada's senior management to have the assurance that services are designed and provided in a manner that demonstrates sufficient attention to efficient delivery.</p>	<ul style="list-style-type: none"> • <i>Auditor General Act, 7(2)(d)</i> • Treasury Board of Canada Secretariat, Management in the Government of Canada: A Commitment to Continuous Improvement (2005), page 9 • Treasury Board of Canada Secretariat, Management Accountability Framework, Stewardship, Round V (2007)
Deployment of correctional officers	
<p>We expected Correctional Service Canada to have demonstrated sufficient attention to efficiency in the management of its human resources by developing and deploying a standard for allocating the minimum number of correctional officers to provide a safe and secure environment for its inmates and employees in its institutions.</p>	<ul style="list-style-type: none"> • <i>Auditor General Act, 7(2)(d)</i> • Treasury Board of Canada Secretariat, Management Accountability Framework, People, Round V (2007), page 11 • Belcourt et al: Strategic Human Resources Planning (2007), pages 155–160
<p>We expected Correctional Service Canada to have demonstrated sufficient attention to economy in its management of human resources by developing and deploying a standard for the number of correctional officers needed in its institutions to replace officers who are not available for work</p>	<ul style="list-style-type: none"> • <i>Auditor General Act, 7(2)(d)</i>

Criteria	Sources
Management of overtime of correctional officers	
<p>We expected Correctional Service Canada to have demonstrated sufficient attention to economy by analyzing and addressing issues related to overtime.</p>	<ul style="list-style-type: none"> • <i>Auditor General Act, 7(2)(d)</i> • Treasury Board of Canada Secretariat, Stretching the Tax Dollar Series, Making the Organization More Efficient (1993), Section 4.1.4 • Treasury Board of Canada Secretariat, Management Accountability Framework, People, Round V (2007) • Treasury Board of Canada Secretariat, Risk Management Policy (2001), Section 1.3 • Agreement between the Treasury Board and the Union of Canadian Correctional Officers, Part 3, Working Conditions, Article 21 on Hours of Work and Overtime (2CC6). • Treasury Board of Canada Secretariat, Terms and Conditions of Employment, Section 8 • Correctional Service Canada, Management of Overtime: Roles & Responsibilities (Entire Document)
Delivery of selected institutional services	
<p>We expected Correctional Service Canada to have the assurance that its policies, procedures, and practices for the procurement and delivery of its institutional goods and services demonstrated sufficient attention to economy.</p>	<ul style="list-style-type: none"> • <i>Auditor General Act, 7(2)(d)</i> • <i>Federal Accountability Act (2006)</i>, Part 5, Procurement and Contracting • Treasury Board of Canada Secretariat, Management Accountability Framework, Stewardship, Round V (2007) • Treasury Board of Canada Secretariat, Contracting Policy and Guidelines (2003), sections 1 and 4.1 • Commissioner's Directive, Materiel and Supply Management Services (2006)
<p>We expected Correctional Service Canada to have demonstrated that it had designed and implemented its policies, procedures, and practices for inventory and distribution of institutional goods with sufficient attention to efficiency.</p>	<ul style="list-style-type: none"> • <i>Auditor General Act, 7(2)(d)</i> • Treasury Board of Canada Secretariat, Stretching the Tax Dollar Series, Making the Organization More Efficient (1993), Section 4.1.3 • Treasury Board of Canada Secretariat, Management Accountability Framework, Stewardship, Round V • Treasury Board of Canada Secretariat, Contracting Policy and Guidelines (2003), sections 1 and 4.1 • Commissioner's Directive, Materiel and Supply Management Services (2006)

Audit work completed

Audit work for this chapter was substantially completed on 30 May 2008.

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 7. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
<p>Food, cleaning, and clothing services</p> <p>7.38 Correctional Service Canada should collect, at a national level, sufficient information on the volume and cost of its purchases and their use by location. It should use this information to perform in-depth analysis of its procurement of its food, cleaning, and clothing services, and regularly examine potential alternatives and improvements to its current practices. Further, it should examine the cost-saving opportunities based on the volume of its purchases. (7.14–7.37)</p>	<p>CSC agrees that further analysis of the costs of procurement and delivery of food, cleaning, and clothing services will be beneficial.</p> <p>CSC will enhance its analysis of its institutional service delivery. More specifically, within the next 18 months CSC will</p> <ul style="list-style-type: none"> • collect sufficient information from institutions to facilitate systematic, in-depth analyses of current procurement practices and of its institutional service delivery model at the national level. This includes a review of best practices and, as required, a comparison to industry norms and other correctional jurisdictions; • review inventory management practices and optimal inventory levels; • review its food service distribution model and explore the use of national menus; • review the distribution model for clothing; • reassess premiums attributed to CORCAN goods and services; • continue to collaborate with Public Works and Government Services Canada to develop a national procurement strategy, including the use of longer-term and national contracts for certain commodities; and • establish national guidelines on the economical procurement of goods. <p>Finally, the modernization of the physical infrastructure proposed by the CSC Review Panel, which is also a key theme of CSC's Transformation Initiative in response to the Panel's recommendations, presents further opportunities to explore creative and innovative ways for CSC to streamline service delivery, to share common services, and to realize more efficient and effective procurement practices.</p>

Recommendation

Response

Management of correctional officers

7.46 Correctional Service Canada should conduct sufficient analysis to determine that its deployment of correctional officers results in the most economic and efficient result.
(7.39–7.45)

CSC agrees and is committed to further analyzing its draft deployment standards prior to full implementation. This ongoing analysis will also take into account the impact of employee leave and overtime to ensure that the most economic and efficient use of substitute relief positions for correctional officers is achieved.

While this audit was being finalized, the draft deployment standards were implemented in Mountain Institution in the Pacific Region. Lessons learned are being incorporated into the draft deployment standards.

Additionally, CSC is assessing institutional differences and developing site specific standards. As needed, it is also incorporating changes to the draft deployment standards that result from the implementation of CSC Review Panel recommendations.

The deployment standards, once finalized, will provide more flexibility and availability to offset overtime costs due to staff absences. In addition, CSC is finalizing a Commissioner's Directive on the National Standards for the Deployment of Correctional Officers that includes an oversight committee responsible for ensuring the economic and efficient deployment of correctional officers. Implementation is planned for April 2009.

Furthermore, CSC is developing an automated National Scheduling and Deployment System for security services to provide more consistency in scheduling and deployment practices. Full implementation is expected by September 2009.

Recommendation

7.63 Correctional Service Canada should systematically collect and analyze complete information to properly manage its overtime expenditures. It should examine reasons that overtime is incurred and analyze and implement decisions to reduce the cost of overtime through alternatives to overtime, proper controls, and incentives.

(7.47–7.62)

Response

CSC agrees that the ongoing monitoring of overtime expenditures is essential to ensuring the effective management of its resources with due regard for economy and efficiency.

CSC will enhance its monitoring and analysis of expenditures and alternatives to overtime, as well as the financial and performance information related to all aspects of its operations, which includes overtime expenditures.

As of August 2008, the quarterly monitoring process related to the management of overtime expenditures was enhanced to ensure that the CSC Executive Committee and the National Finance Committee are provided with more detailed information and enhanced analysis at the national level.

Further, the Committee on Correctional Officer Deployment Standards will be established by April 2009 and be responsible for ensuring economic and efficient practices related to the deployment of correctional officers. The development of a nationally accepted model for monitoring overtime at the institutional level will also form part of those responsibilities.

Finally, performance agreements for all executives will continue to include ongoing commitments related to the sound stewardship of financial resources and effective people management. Beginning in fiscal year 2008–09, the Performance Assessment Committee will further consider how wardens and senior managers manage their financial resources, including the proper management of overtime.

Recommendation

7.68 Correctional Service Canada should ensure that all employee absences are correctly recorded in its human resource management system. (7.64–7.67)

Response

CSC agrees and is committed to ensuring all employee absences are correctly recorded in its human resource management System (HRMS).

As mentioned in the report, CSC has taken immediate action to address the issue of incorrect recording of employee absences, including reconciling data in the institutional rosters with that in HRMS.

Furthermore, all national headquarters sectors, regions, and institutions were instructed in July 2008 to review all employee absences for 2007–08. Where needed, appropriate action will be taken to ensure the accuracy and completeness of all employee absence information. These actions will include, if necessary, appropriate measures to address any non-compliance on the part of CSC personnel with the national directives on the proper recording of employee leave.

In addition, a quarterly monitoring process has been initiated across the organization to ensure ongoing accountability for the proper recording of employee absences.

A follow-up review of the recording of employee absences will also be conducted by CSC Internal Audit Branch by the end of 2008–09.

Finally, CSC will implement an automated National Scheduling and Deployment System by September 2009 that will interface directly with HRMS, thereby strengthening controls around the recording of leave transactions.

Recommendation	Response
<p>Senior management direction for economy and efficiency</p> <p>7.80 Correctional Service Canada senior management should ensure that it receives and reviews suitable analysis and performance information to allow it to monitor and make decisions for its institutional and security services with sufficient attention to economy and efficiency. The Agency should identify and analyze opportunities for cost savings, and for planning, implementing, monitoring, and improving the delivery of these services with due consideration to economy and efficiency.</p> <p>(7.69–7.79)</p>	<p>CSC agrees that ongoing monitoring and analysis of expenditures is essential to ensuring the effective management of its resources with due regard for economy and efficiency. In 2008–09, CSC initiated a Strategic Expenditure Review process, which includes a comprehensive analysis of all programs and activities to identify efficiencies and potential reallocation and reinvestment opportunities. Building on the efforts of this strategic review, CSC will enhance its ability to manage its institutional and security services with sufficient attention to economy and efficiency by</p> <ul style="list-style-type: none"> ensuring that economy and efficiency are included as key management considerations in information presented to CSC's Executive Committee and sub-committees (as of November 2008); updating, as required, the terms of reference for key management committees to reflect the need to monitor and manage for economy and efficiency (by March 2009); and reviewing CSC's performance measurement framework and including, as required, measures for economy and efficiency (by March 2009). <p>Moreover, as part of its Transformation Initiative, CSC senior management is committed to analyzing and pursuing alternatives that present greater efficiencies and effectiveness for the federal correctional system.</p>

Report of the Auditor General of Canada to the House of Commons—December 2008

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2008



DECEMBER

Report of the
**Auditor General
of Canada**
to the House of Commons

Chapter 8
Reporting on Health Indicators—Health Canada



Office of the Auditor General of Canada



2008



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Chapter 8
Reporting on Health Indicators—Health Canada



Office of the Auditor General of Canada

The December 2008 Report of the Auditor General of Canada comprises Matters of Special Importance—2008, Main Points—Chapters 1 to 8, Appendices, and eight chapters. The main table of contents for the Report is found at the end of this publication.

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Chapter

8

Reporting on Health Indicators
Health Canada

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Reporting on Health Indicators

Health Canada

Main Points

What we examined

In 2000, the Government of Canada and provincial and territorial governments reached an historic agreement on health that set out a vision, principles, and an action plan for health system renewal. The First Ministers' commitments on health also called for improvements in accountability and reporting to Canadians and directed federal, provincial, and territorial health ministers to develop indicators that could be compared across jurisdictions and over time to measure progress on renewal. All jurisdictions later committed to public reporting every two years on a number of health indicators—for example, wait times and patient satisfaction with health services. First Ministers' agreements in 2003 and 2004 further reiterated reporting requirements.

Every two years, Health Canada produces the federal report on comparable health indicators, *Healthy Canadians: A Federal Report on Comparable Health Indicators*, as its response to the federal commitments to health indicator reporting made in the agreements. The report provides selected information on the general Canadian population and on population groups for which the federal government provides health services, such as military personnel and First Nations and Inuit populations. We examined to what extent the Department's reporting on health indicators met the commitments made in the First Ministers' health agreements. We also looked at whether its reporting has improved over time.

Why it's important

The three federal-provincial-territorial agreements represented an attempt by governments to promote renewal of the health care system. The agreements were accompanied by significant increases in federal transfers of funds to provinces and territories. The First Ministers also committed to improve public reporting to Canadians on the progress of health care renewal. The health indicators reports are an important vehicle for enhancing transparency and accountability. Public reporting by governments promotes accountability in a number of ways—for example, by allowing Canadians to see the extent to which governments are attaining their objectives and goals and assisting individuals, governments, and health care providers to make more informed choices.

What we found

- Health Canada met the specific health indicator reporting obligations that the agreements required of it—including identifying common indicators for reporting with its provincial and territorial counterparts. It has produced a health indicators report every two years.
- The *Healthy Canadians* reports do not fulfill the broader intent of the agreements—to provide the information Canadians need on the progress of health care renewal. The reports provide indicators, such as wait times for diagnostic services, without providing sufficient information to help readers interpret them. There is no discussion of what the indicators say about progress in health renewal. Without interpretation, their ability to inform Canadians is limited.
- Health Canada did not improve its reporting of health indicators in successive reports. The presentation of the information in all three editions of the report was essentially the same, with some modest improvements—despite the fact that Health Canada had received feedback through consultations with Canadians, indicating that their information needs were not being met through the reports.

The Department has responded. The Department agrees with our recommendations. Its detailed responses follow each recommendation throughout the Chapter.

Introduction

Agreements on health care system renewal

8.1 In the late 1990s, the Canadian health care system was generally seen as being in crisis. Public opinion surveys revealed that Canadians were very concerned about the quality and sustainability of the health care system. They felt strongly that Canadian governments needed to do more to fix the system.

8.2 In light of this crisis, the Government of Canada and provincial and territorial governments decided, through a series of agreements, to strengthen and renew Canada's publicly funded health care system. These agreements also sought to improve accountability and reporting to Canadians. The 2000 First Ministers' Health Communiqué (the 2000 Health Communiqué) articulated a vision, principles, and an action plan for health care system renewal that was accompanied by an increase in health care funding of \$21.2 billion over five years. This historic agreement underlined the federal, provincial, and territorial governments' commitment to revitalizing Canada's health care system. Two other agreements were accompanied by further funding—the 2003 First Ministers' Accord on Health Care Renewal (the 2003 Health Accord), which was supported by \$36.8 billion over five years, and the 2004 First Ministers' 10-Year Plan to Strengthen Health Care (the 2004 10-Year Plan), which was supported by \$41.3 billion over 10 years.

8.3 Health care renewal refers to the federal, provincial, and territorial governments' efforts to strengthen and improve the health care system and ultimately the health of Canadians. Over the course of the three health agreements, First Ministers identified priorities, including primary health care, access to care, and pharmaceuticals management.

Comparable health indicators

8.4 In the 2000 Health Communiqué, First Ministers committed to enhance accountability to Canadians through public reporting on health programs and services. The 2003 Health Accord and 2004 10-Year Plan reiterated the commitments made by First Ministers in 2000 to enhance accountability and improve performance reporting to reassure Canadians that health care reform is under way.

8.5 Specifically, the 2000 Health Communiqué directed health ministers

- to provide comprehensive and regular public reporting by each government on the health programs and services they deliver, on health system performance, and on progress toward renewal priorities, such as access to care and home care and community care; and
- to collaborate on the development of a comprehensive framework using jointly agreed on comparable **health indicators** such that each government would begin reporting by September 2002. These comparable indicators were to address three indicator areas: health status, health outcomes, and quality of service.

Health indicator—A single summary measure, most often expressed in quantitative terms, that represents a key aspect of health status, the health care system, or related factors. Indicators rely on consistency in data collection and are used to measure progress against benchmarks.

Source: Canadian Institute for Health Information

8.6 The 2000 Health Communiqué also directed health ministers to work with organizations across Canada with expertise in health measurement to develop common methods for measuring and reporting on the three indicator areas identified by First Ministers. According to the 2000 Health Communiqué, this collaboration would help provide for regular reporting to Canadians on the progress of health care renewal. The 2000 Health Communiqué sets out the benefits of measuring, tracking, and reporting on performance (Exhibit 8.1).

Exhibit 8.1 Benefits of measuring, tracking, and reporting on performance

Measuring, tracking and reporting on performance

- allows Canadians to see how governments are doing in attaining goals and objectives;
- assists individuals, governments, and health care providers to make more informed choices;
- promotes the identification and sharing of best practices within jurisdictions and across Canada, and contributes to continuous service improvement;
- increases Canadians' understanding of the utilization and outcomes of health services . . . ; and
- helps Canadians understand how their publicly funded health services are being delivered.

Source: First Ministers' Meeting, Communiqué on Health, Ottawa, 11 September 2000

8.7 In the 2003 Health Accord, First Ministers built on their previous commitments, agreeing that each jurisdiction would continue to provide comprehensive and regular public reporting on the health care programs and services it delivers, including information on health system performance, health outcomes, and health status. They also agreed that these reports would include the health indicators set out in

the 2000 Health Communiqué as well as additional comparable health indicators, to be developed by health ministers, on four themes—timely access, quality, sustainability, and health status and wellness. Jurisdictions were also to develop the necessary infrastructure to collect the data needed for quality reporting.

8.8 The 2003 Health Accord particularly noted the serious health challenges faced by Aboriginal Canadians. The federal government committed to increase its funding and cooperate with other governments and Aboriginal peoples to meet the objectives defined in the Accord. The 2003 Health Accord directed health ministers to develop, in consultation with Aboriginal peoples, a comparable Aboriginal Health Reporting Framework to inform Canadians about progress achieved on Aboriginal health outcomes.

8.9 First Ministers agreed in 2004 on a 10-year plan to strengthen health care based on a number of principles, including continued health care system accountability and the provision of information to make progress transparent to their citizens. While the 2004 10-Year Plan does not explicitly refer to comparable health indicator reporting, it committed health ministers to report to their residents on health care system performance. Health Canada sees its comparable health indicators report as one way to meet this commitment.

8.10 Comparable health indicators allow for comparisons over time or across health care systems—for example, from province to province. They provide important information to the public and the health care sector, and can play a key role in performance management, monitoring, and quality improvement. Comparable health indicators also help policy makers set priorities, plan strategically, and allocate resources.

Healthy Canadians—Health Canada's response to the First Ministers' comparable health indicator reporting commitments

8.11 The First Ministers' health agreements call for governments to demonstrate accountability through comprehensive and regular public reporting. One of the key commitments is for the federal, provincial, and territorial governments to report to the public on comparable health indicators. Health Canada has responded on behalf of the federal government by preparing *Healthy Canadians: A Federal Report on Comparable Health Indicators*. *Healthy Canadians* is published every two years, with editions in 2002, 2004, and 2006, and another scheduled for 2008. The reports present data on a number of health indicators for the general population. They also include data on

certain populations for whom the federal government delivers health care services, such as First Nations and Inuit, and Canadian military personnel. The purpose of *Healthy Canadians* is to provide Canadians with the most current information available on comparable health indicators that measure progress on health care renewal.

Federal responsibility for health care services

8.12 While the provinces and territories are largely responsible for the delivery of health care services, the federal government supports the publicly funded system through transfer payments and the *Canada Health Act*. The Act is intended to ensure that all Canadians have access to medically necessary services regardless of their ability to pay. The 2006 edition of *Healthy Canadians* notes that the federal government directly provides some health care services and benefits to several population groups, which include

- First Nations and Inuit;
- veterans;
- military personnel;
- inmates of federal correctional facilities;
- members of the Royal Canadian Mounted Police; and
- asylum seekers, refugees, and persons detained for immigration purposes.

This makes the federal government one of the largest providers of health care services to Canadians.

Roles and responsibilities for health information and reporting

8.13 Health Canada is the federal department responsible for helping Canadians maintain and improve their health. To carry out this responsibility, Health Canada develops, implements, and enforces regulations, legislation, policies, programs, services, and initiatives and works with the provinces and territories, and other partners. One of the Department's objectives is to provide health information to help Canadians make informed decisions.

8.14 In addition to Health Canada, two other federal organizations are responsible for generating, managing, and reporting health information. Statistics Canada is mandated to provide accurate, timely, and relevant information about the health of Canadians and the health care system. The Public Health Agency of Canada is

responsible for national health surveillance systems focusing on various communicable and chronic diseases, such as HIV and diabetes.

8.15 The Canadian Institute for Health Information (CIHI), a national, not-for-profit organization, is also responsible for managing and reporting health information. CIHI receives most of its funding from the federal government. CIHI's mandate is to coordinate the development and maintenance of a comprehensive and integrated national approach to health information.

8.16 Although Statistics Canada and CIHI prepare reports on health indicators, their reports are not a response to the First Ministers' commitments.

Recent developments related to the health agreements

8.17 In 2005, Royal Assent was granted to federal legislation authorizing a parliamentary review of the implementation of the 2004 10-Year Plan to Strengthen Health Care. The review began in March 2008. Although its focus was the progress achieved in implementing health care renewal initiatives, the review also looked at health indicator reporting. The parliamentary review, completed in June 2008, noted that the lack of standardized, uniform, and nationally comparable health data was a barrier to monitoring and reporting on the implementation of the 2004 10-Year Plan.

8.18 As part of the 2003 Health Accord, Canada's First Ministers established the Health Council of Canada, a non-profit agency funded by Health Canada (\$13.8 million from 2004–05 to 2006–07). The Health Council's mandate is to report to Canadians on progress made by the federal, provincial, and territorial governments in implementing the health care agreements, particularly the accountability and transparency provisions.

8.19 In June 2008, the Health Council of Canada released its five-year progress report on what the governments have done to implement the health care renewal objectives in the 2003 First Ministers' Accord on Health Care Renewal. The report assessed the pace and direction of the renewal objectives—timely and equitable access to health care, a higher quality of care, a solid future for the public health care system, a healthier population, and more accountability to Canadians for where their money goes and what it achieves. Regarding the comparable health indicator reporting provisions of the 2003 Health Accord, the Health Council noted that only the federal government reported on comparable health indicators

in 2006. The Health Council observed that a great deal of reporting on the state of health care in Canada has been produced by all governments in the past five years. Yet it noted that without more standardized and collaborative reporting by all governments—federal, provincial, and territorial—Canadians could not be confident that the new money and new practices intended to improve health care are making a difference.

Focus of the audit

8.20 The objective of our audit was to determine the extent to which Health Canada met the health indicator reporting commitments set out in the 2000, 2003, and 2004 First Ministers' health agreements, and to determine whether its reporting is improving.

8.21 Our audit examined the reporting of health indicators by Health Canada. It did not include an assessment of data quality, as this is part of our health indicator verification work (paragraph 8.23). In addition, our audit did not examine the role of provinces and territories in providing information on the health of the population and the delivery of their health care services.

8.22 More details on the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

8.23 **Verification of the health indicators reports.** In 2002, 2004, and 2006, the Office of the Auditor General was engaged by Health Canada to provide third-party verification of each edition of *Healthy Canadians* in accordance with a First Ministers' commitment in the 2000 Health Communiqué. We audited the health indicators to determine whether they were complete, accurate, and adequately disclosed. The definitions of these criteria were quite specific and limited. For example, accuracy was defined in terms of how well the health indicators reflected the facts and the extent to which they were reported at an appropriate level of accuracy to enable comparisons among the various editions. We concluded that the health indicators presented in each edition of *Healthy Canadians* met the three criteria. We were not responsible for assessing the performance achieved or the relevance or sufficiency of the health indicators selected for reporting.

Observations and Recommendations

Reporting on health indicators

Health Canada has met the specific health indicator reporting obligations

8.24 We expected Health Canada to have identified and taken action to meet its health indicator reporting obligations resulting from the First Ministers' 2000, 2003, and 2004 health agreements. We further expected that Health Canada would work with its counterparts in the provincial and territorial governments to develop a framework using jointly agreed upon comparable health indicators. Finally, we expected that Health Canada would have worked with data providers to obtain the necessary information for the health indicators reports.

8.25 We found that Health Canada identified its health indicator reporting obligations, worked with its provincial and territorial counterparts to develop a comparable health indicator framework, collaborated with data providers to obtain the necessary information for the health indicators reports, and produced health indicators reports that meet the specific health indicator reporting commitments in the health agreements.

8.26 The three health agreements were the product of federal-provincial-territorial collaboration. They included important accountability and reporting commitments, although they did not detail how the commitments were to be carried out. As part of our audit, we asked the Department for documentation outlining how it had determined its obligations in relation to the commitments made in the agreements—such documentation is important for internal management and external accountability.

8.27 Health Canada informed us that no such documentation exists. In the Department's view, the 2000 Health Communiqué and subsequent agreements clearly set out what needed to be done. The Department informed us that *Healthy Canadians* is its response to the First Ministers' commitments to report on comparable health indicators. However, the Department has not made clear what it is trying to achieve in publishing *Healthy Canadians* and how it relates to the Department's broader goals, beyond simply complying with the First Ministers' agreements.

8.28 The Department further informed us that *Healthy Canadians* is not intended to be the sole means to fulfill the First Ministers' commitment that health ministers provide comprehensive and regular public reporting on health programs and services they deliver, on health system performance, and on progress toward health care

renewal priorities. Health Canada told us this commitment is also fulfilled through its existing publications, such as its Report on Plans and Priorities, Departmental Performance Report, and Canada Health Act Annual Report.

8.29 For the 2002 and 2004 health indicators reports, as per the health agreements, Health Canada, as part of a federal–provincial–territorial working group, worked with ministries of health and consulted with the Canadian Institute for Health Information (CIHI), Statistics Canada, and l’Institut de la statistique du Québec to develop a comprehensive framework of health indicators for comparable reporting. The health indicator framework developed for reporting in 2002 included 67 jointly agreed upon comparable health indicators, 58 of which were reported in the 2002 federal report. According to Health Canada, the remaining nine health indicators were not reported because national data were not available.

8.30 In the 2003 Health Accord, First Ministers committed to develop additional health indicators and to review those that had been developed to ensure that they were measuring progress on achieving the reforms set out in the 2003 Health Accord. This work resulted in the selection of 70 health indicators, of which 18 were chosen for detailed reporting by all jurisdictions in 2004. All 70 health indicators were not reported on because some did not meet certain criteria (for example, comparability or availability of data).

8.31 In 2006, the federal–provincial–territorial arrangement that had been in place for the two previous reports was no longer in place. In the absence of this arrangement, Health Canada reported on the same 18 health indicators chosen by the jurisdictions for reporting in 2004, as well as three additional health indicators—self-rated mental health, self-perceived stress, and self-reported fruit and vegetable consumption (Exhibit 8.2). In choosing the additional health indicators, Health Canada consulted internally and with the Public Health Agency of Canada. The three additional health indicators were selected for their relevance to current health issues and for the availability of reliable data across provinces and territories.

8.32 Statistics Canada, CIHI and, starting in 2006, the Public Health Agency of Canada all provide Health Canada with health indicator data for *Healthy Canadians*.

8.33 According to the Health Council of Canada, Health Canada, and the provinces and territories published comparable health indicators reports in 2002 and 2004. In 2006, however, only Health Canada published a comparable health indicators report.

Exhibit 8.2 Health indicators reported in *Healthy Canadians 2006*

Health Indicators
<i>Healthy Canadians 2006</i> was released in December 2006. It primarily included self-reported data* on health indicators for the general public from Statistics Canada's Canadian Community Health Survey. It also included data on ambulatory care sensitive conditions and diabetes indicators from CIHI and the Public Health Agency of Canada, respectively.
Theme: Timely Access
1. Self-reported difficulty obtaining routine or ongoing health care services
2. Self-reported difficulty obtaining health information or advice
3. Self-reported difficulty obtaining immediate care
4. Self-reported prescription drug spending as a percentage of income
5. Self-reported wait times for diagnostic services
Theme: Quality
6. Hospitalization rate for ambulatory care sensitive conditions
7. Self-reported patient satisfaction with overall health care services
8. Self-reported patient satisfaction with community-based care
9. Self-reported patient satisfaction with telephone health line or tele-health services
10. Self-reported patient satisfaction with physician care
11. Self-reported patient satisfaction with hospital care
Theme: Health Status and Wellness
12. Health adjusted life expectancy (HALE)
13. Prevalence of diabetes
14. Self-reported health
15. Self-reported teenage smoking rates
16. Self-reported physical activity
17. Self-reported body mass index
18. Self-reported immunization for influenza, aged 65 plus (flu shot)
19. Self-rated mental health
20. Self-perceived stress
21. Self-reported fruit and vegetable consumption

*Self-reported data are subject to some known limitations. Self-reported information requires the respondent to be honest with interviewers and to accurately recollect past events. In addition, self-reported data may be influenced by factors such as the respondent's sociodemographic characteristics, cognitive ability or memory, questionnaire design or the mode of data collection (for example, whether respondents were interviewed by phone or in person).

Source: *Healthy Canadians: A Federal Report on Comparable Health Indicators 2006*

8.34 The First Ministers' health agreements called for enhanced accountability to the public on health care renewal through improved performance reporting. This was to help reassure Canadians that health care reforms are occurring. While Health Canada has met the specific comparable health indicator reporting commitments, as we note in the sections that follow, it has not fulfilled the broader intent of the agreements—to inform Canadians on the progress of health care renewal.

Improvement over time

Healthy Canadians lacks interpretation of progress on health care renewal

8.35 While Health Canada met the federal government's specific health indicator reporting obligations, a key goal of the three health agreements was to report to Canadians on the progress of health care renewal, including accessibility, quality, and sustainability of the publicly funded health care system. One way that reporting on health care renewal is done is through health indicators. Good public reporting would state why the information reported is significant and relevant, and explain why trends may be occurring. Interpretation is necessary to link individual health indicators to overall progress. Interpretation of the information in *Healthy Canadians* could help readers see what progress the government is making in health care renewal in relation to investments pledged for health care reform.

8.36 In this audit, we found that the health indicators reports presented data on health indicators without providing sufficient interpretation (See Exhibit 8.3 for an example). The reports present health indicators in isolation, without sufficient explanation of their individual significance or how, taken together, they reflect progress on health care renewal.

8.37 The lack of explanation and discussion in all three editions of *Healthy Canadians* can also be seen in how they present self-reported wait times for diagnostic services. The 2002, 2004, and 2006 editions provide a definition of each indicator in terms of what it measures, and they present indicator data both textually and graphically. However, apart from one sentence in the overview section of the 2004 and 2006 editions—about the advantages of early access to diagnostic equipment for disease detection, diagnosis, and treatment—no interpretive information is given on wait times. Interpretive information could help readers to have a better sense of what progress has been made in reducing wait times.

8.38 In contrast is Saskatchewan's *Comparable Health Indicators Report 2004*—the province's equivalent of the federal *Healthy Canadians*. Unlike the federal *Healthy Canadians*, this provincial report

Exhibit 8.3 *Healthy Canadians 2006* presentation of self-reported patient satisfaction with physician care indicator

11. Self-reported patient satisfaction with physician care

Theme: Quality

Priority Area: Health Human Resources

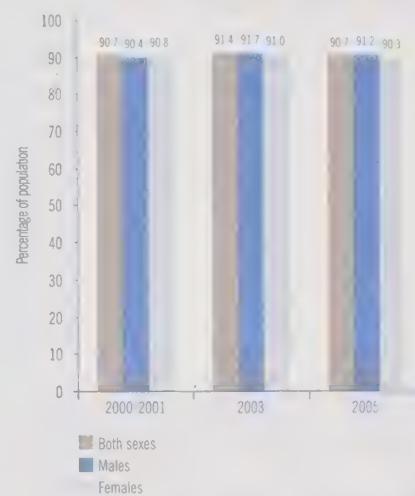
Description: This indicator measures the percentage of the population aged 15 and older who received care from a physician (i.e., a family doctor or medical specialist) in the 12 months prior to being surveyed, and who reported being "very satisfied" or "somewhat satisfied" with the way physician care was provided.

Advisory to Readers: The actual meaning of the indicator is patient satisfaction with *the way* the service was provided and not with the service as a whole. Also, physician care excluded services received from a family physician or medical specialist located in a hospital.

Results: In 2005, 90.7% of Canadians who received care from a physician reported they were "very satisfied" or "somewhat satisfied" with the way physician care was provided. Satisfaction has remained consistently high, with similar rates of satisfaction from males and females in every period.

Self-Reported Patient Satisfaction with Physician Care

Percentage of population who were "very satisfied" or "somewhat satisfied" with the way physician care was provided, by sex (age-standardized), Canada, 2000–2001, 2003 and 2005



Source: Statistics Canada, Canadian Community Health Survey, 2000–2001, 2003 and 2005.

Notes: Age-standardized to the 1991 Canadian population. Based on household population aged 15 and older who reported receiving health care services from a family doctor, general practitioner or medical specialist in the 12 months prior to the survey.

This excludes services received during a hospital visit and refers to the most recent care received from a physician.

For additional exclusions/limitations see Annex 3.

Source: *Healthy Canadians: A Federal Report on Comparable Health Indicators 2006*

provides interpretive information about barriers to accessing care that might influence wait times—for example, the availability of equipment and facilities or the number of radiologists responsible for operating the equipment. The report also cites data about the most common consequences experienced by patients of waiting for diagnostic tests. As well, it provides a description of wait time projects with the associated financial details and web links for further information. This interpretive information helps the reader understand the significance of the health indicator.

8.39 Interpretation is also provided in the 2007 Canadian Institute for Health Information's report, *Health Care in Canada*. This report presents selected health indicators in context to tell a compelling

performance story. For example, the report situates access to care in light of what is known and unknown in terms of how long people wait and how waits affect their health and well-being. The report also tracks the number of MRI and CT scanners available and provides information on the number of scans performed in Canada compared to other countries. Much like Saskatchewan's comparable health indicators report, the 2007 CIHI report provides information on the consequences of waiting for diagnostic tests, as reported by patients. The report also provides a web link to the CIHI site for further information on access and wait times.

8.40 The Public Health Agency of Canada's *Report on the State of Public Health in Canada 2008*, issued by the Chief Public Health Officer, is also an example of a federal report that includes interpretation of health indicators—such as using education and income to help explain differences in health status.

8.41 Our findings that the *Healthy Canadians* reports lack interpretation are consistent with feedback that Health Canada received in 2003, when focus group participants indicated that *Healthy Canadians* would be more meaningful if it included interpretive information.

8.42 Recommendation. For future editions of *Healthy Canadians*, Health Canada should include interpretive information to help Canadians understand what the health indicator data mean as well as how health care renewal is progressing.

The Department's response. Agreed. In earlier versions of *Healthy Canadians*, Health Canada focused on presenting data on comparable indicators clearly and unambiguously, avoiding interpretations that were not supported by the data alone and which might have been challenged by alternative perspectives. For the 2008 *Healthy Canadians* report, Health Canada will continue to emphasize data validity and reliability but is also exploring ways of interpreting the data that would make it more meaningful to Canadians. A Committee has been established with a mandate to provide advice and guidance on the development of the 2008 *Healthy Canadians* report and, in particular, on ways of presenting the data with more interpretive analysis, while at the same time retaining any necessary cautionary and explanatory notes about data validity and reliability. The Committee, which met for the first time on January 31, 2008, includes members from Health Canada and the Public Health Agency of Canada.

Health Canada does not know if recent editions of *Healthy Canadians* meet the needs of Canadians

8.43 The First Ministers' health agreements called for comparable health indicators reports that would be informative and relevant to the public. In meeting this commitment, we expected Health Canada to consult with Canadians about their information needs.

8.44 In 2003, Health Canada commissioned focus group testing in five major centres across Canada to determine how well the 2002 edition of *Healthy Canadians* responded to the needs of the public. Focus group participants indicated that the report was easy to read and understand, and written in clear, straightforward language. They found the graphs clear and useful, and the layout of the report easy to scan.

8.45 What the focus group participants liked least was the lack of explanations or interpretation of the information in the report. The focus group study notes, "As a result, the statistics tended to blend together without meaning or definition for readers." Focus group participants called for future editions of *Healthy Canadians* to add interpretive language that would provide greater meaning and context for the information presented. Participants were most interested in the interpretation of trends, explanations of causes and effects, and information that they could personally act on.

8.46 In both 2003 and 2004, Health Canada (prior to issuing the 2004 edition of *Healthy Canadians*), as part of a federal–provincial–territorial working group, conducted a number of consultations to guide their selection of health indicators for comparable reporting. In 2003, the working group consulted with experts and stakeholders through an invitational workshop as well as through written submissions and via the Internet. In 2004, the working group consulted with the public through focus group testing to determine the health indicators that were important and meaningful to Canadians, as well as to provide information on the public's preferences for the format and presentation of the health indicators.

8.47 To date, Health Canada has not consulted with the public on its 2004 and 2006 editions of *Healthy Canadians*. Canadians' information needs may have changed since the 2003 and 2004 consultations. The Department attempted to obtain feedback on the 2006 edition by including in it a reader feedback questionnaire. However, very few people have responded. During our audit, Health Canada announced plans for a 2008 evaluation of *Healthy Canadians* to determine whether it has met its original objectives. The Department planned to consult with previous recipients of federal

reports, members of federal populations, individuals who took part in earlier consultations to select comparable health indicators, and key Departmental representatives. The final evaluation report was originally to be completed in September 2008, but was rescheduled for reporting in August 2009.

8.48 Recommendation. In planning for future editions of *Healthy Canadians*, Health Canada should take into account the results of its consultations and its 2009 evaluation to determine the needs of Canadians and how *Healthy Canadians* can best meet them.

The Department's response. Agreed. Based on previous consultations, Health Canada is looking at ways to improve interpretation of the data in the 2008 *Healthy Canadians* report, and is considering the relevance of the indicators reported. Health Canada is also planning an evaluation of the 2008 *Healthy Canadians*, including input from external stakeholders such as health interest groups, which will be completed by August 2009, in time to incorporate findings into future federal reports.

Healthy Canadians has not improved over time

8.49 We expected to find improvements in successive health indicators reports—that is, provision of additional or updated data and health indicators, and better presentation of health indicators. In addition, we expected Health Canada to use the feedback from the consultations they carried out to improve subsequent reports.

8.50 We compared the 2004 and 2006 editions of *Healthy Canadians* with the 2002 edition to determine whether the Department had made improvements in providing additional or updated data and health indicators and in presenting the information.

8.51 In 2004, Health Canada reported on 18 featured health indicators. In its 2006 edition of *Healthy Canadians*, Health Canada reported on 21 health indicators—the same ones it reported on in 2004 plus three new health indicators—self-rated mental health, self-perceived stress, and self-reported fruit and vegetable consumption. In choosing the additional health indicators, Health Canada consulted internally and with the Public Health Agency of Canada. The three health indicators were selected for their relevance to current health issues and for the availability of reliable data across provinces and territories. These three health indicators were not part of the framework of 70 health indicators approved for comparable reporting by the Conference of Deputy Ministers. Health Canada has

indicated that in recognition of provincial and territorial responsibilities for health care and the commitments made in the health agreements, it is important for the Department to consult with provincial and territorial governments on future changes to health indicators.

8.52 Apart from the addition of these three health indicators, we found that the presentation of the information in 2002 was largely unchanged in 2004 and 2006. The reports for those later years continued to provide data on health indicators without adequate explanation and discussion of their implications (paragraphs 8.36 and 8.37).

8.53 As noted earlier, in an attempt to improve *Healthy Canadians*, Health Canada consulted with Canadians in 2003. The public provided feedback on the extent to which the 2002 report met their information needs (paragraphs 8.44 and 8.45). However, we found that Health Canada did not prepare an action plan responding to the concerns expressed in the consultations and that the 2004 and 2006 editions of *Healthy Canadians* did not address key deficiencies highlighted through the public consultation.

8.54 Recommendation. In planning for future editions of *Healthy Canadians*, Health Canada should review the health indicators reported on and take concrete steps to improve their presentation.

The Department's response. Agreed. Health Canada has reviewed the current list of comparable health indicators, which was developed via a federal–provincial–territorial consultation that ended in June 2005. This review, completed in September 2008, assessed the extent to which these indicators reflect current concerns of Canadians and ongoing commitments of the Health Accords and has been used in the development of *Healthy Canadians* 2008.

Reporting on federal populations is inconsistent across editions of *Healthy Canadians*

8.55 As noted earlier (paragraph 8.12), the federal government is directly responsible for providing some health care services to several population groups. These include First Nations and Inuit; military personnel and veterans; inmates of federal correctional facilities; members of the RCMP; and asylum seekers, refugees, and persons detained for immigration purposes. For populations other than First Nations and Inuit, other federal departments apart from Health Canada are responsible for delivering some health care services.

8.56 *Healthy Canadians* reports include health indicators on only some of these populations. Health Canada notes in *Healthy Canadians* that this is because data are sometimes lacking and because federal departments and agencies do not always have the capacity to collect the data. Moreover, available data on these federal populations often do not correspond to the requirements of comparable indicator reporting (Exhibit 8.4).

Exhibit 8.4 *Healthy Canadians* cover federal populations inconsistently

Reports	Populations included in the report	Populations not included in the report
2002	<ul style="list-style-type: none"> • First Nations and Inuit • military personnel • federal inmates • veterans 	<ul style="list-style-type: none"> • asylum seekers, refugees, and persons detained for immigration purposes • RCMP
2004	<ul style="list-style-type: none"> • First Nations and Inuit 	<ul style="list-style-type: none"> • military personnel • veterans • federal inmates • asylum seekers, refugees, and persons detained for immigration purposes • RCMP
2006	<ul style="list-style-type: none"> • First Nations and Inuit • military personnel 	<ul style="list-style-type: none"> • veterans • federal inmates • asylum seekers, refugees, and persons detained for immigration purposes • RCMP

8.57 We examined whether Health Canada had assessed the merit, applicability, and feasibility of reporting on the federal populations in *Healthy Canadians*. We found that Health Canada had not done so. As Health Canada considers how to address the results of its 2009 evaluation of *Healthy Canadians*, it would be an ideal time to consult with the federal departments responsible for these populations regarding their inclusion in future editions of *Healthy Canadians*. Through these consultations with the other departments, Health Canada can demonstrate its leadership and commitment to reporting on health indicators.

8.58 Recommendation. Health Canada should consult with the departments responsible for federal populations regarding the merit, applicability, and feasibility of including information on these populations in future editions of *Healthy Canadians*.

The Department's response. Agreed. In 2008, Health Canada plans to report any available new data in relation to health services delivered by other federal departments to specific population groups (National Defence, Veterans Affairs Canada, Citizenship and Immigration Canada, Correctional Service Canada, Royal Canadian Mounted Police). For *Healthy Canadians* reports in 2010 and beyond, Health Canada plans to consult with the other departments on the merit, applicability, and feasibility of reporting on these populations.

Limited First Nations and Inuit health indicator information is reported in *Healthy Canadians*

8.59 Health Canada provides a range of health care services to First Nations and Inuit—the largest federal population. We reviewed the First Nations and Inuit health indicators reported in the 2002, 2004, and 2006 editions of *Healthy Canadians* to determine what health indicators were reported and how they were presented.

8.60 The three editions of *Healthy Canadians* included limited First Nations and Inuit health indicators. It should be noted that *Healthy Canadians* is not intended to be the sole vehicle for reporting on First Nations and Inuit by Health Canada. For the 2002 edition of *Healthy Canadians*, Health Canada reported on a subset of the health indicators from the indicator framework and much of the data came from Health Canada itself. For the 2004 and 2006 editions of *Healthy Canadians*, much of the data Health Canada reported was supplied by the Aboriginal Peoples Survey and the First Nations Regional Longitudinal Health Survey, respectively.

8.61 Not all of the health indicators chosen for reporting on the general population have corresponding health indicators for the First Nations and Inuit population. Reporting on First Nations and Inuit health is challenging because it is difficult not only to develop culturally sensitive reporting frameworks, but also to carry out efficient and effective ways of data collection. This population is dispersed across many regions of remote Canada as well as urban centres.

8.62 Aboriginal Health Reporting Framework. In the 2003 Health Accord, First Ministers recognized the serious challenges that face the health of Aboriginal Canadians, including First Nations and Inuit. Disparity in the health status of Aboriginal peoples compared to the

overall Canadian population is significant (Exhibit 8.5). First Ministers agreed to work together to address the gap in health status between Aboriginal and non-Aboriginal Canadians.

8.63 First Ministers directed health ministers to consult with Aboriginal peoples on the development of a comparable Aboriginal Health Reporting Framework (the Framework) and to develop the necessary data infrastructure to report to Canadians and Aboriginal peoples on progress achieved and key outcomes of health care renewal. In the 2003 Health Accord, the federal government committed to working collaboratively with other governments and the Aboriginal peoples in this regard.

8.64 To respond to the First Ministers' commitment to develop the Framework, a task group was established in 2004. The task group consisted of representatives from the federal government (including Health Canada), the provinces and territories, and five national Aboriginal organizations. However, in 2005, the work of the task group was suspended and only in 2008 did work resume on the Framework. It will be important for the remaining work to be completed to help address the disparity in health status between Aboriginal peoples and the general population to the extent that work on this Framework can contribute to the development of indicators that can be reported in *Healthy Canadians* and other reports.

Exhibit 8.5 Disparity in health status between First Nations and Inuit and the Canadian population

- The life expectancy of Registered Indians was on average 6.6 years less than for the Canadian population in 2001.

Source: Basic Departmental Data, 2004, Indian and Northern Affairs Canada

- Infant mortality rates were approximately four times higher for Inuit than for the Canadian population in 2003.

Source: Statistics Canada (2003), Life Expectancy in the Inuit-inhabited areas of Canada, 1989 to 2003

- The incidence of tuberculosis was six times higher for First Nations peoples than for the Canadian population in 2000.

Source: Basic Departmental Data, 2004, Indian and Northern Affairs Canada

- First Nations adults were approximately four times more likely to have diabetes than the Canadian population in 2002.

Source: First Nations Regional Longitudinal Health Survey, Phase 1 (2002/03)

8.65 Recommendation. Health Canada should continue to develop First Nations and Inuit health indicators in collaboration with other governments and Aboriginal peoples, and report these indicators in future editions of *Healthy Canadians*, to the extent that it is practicable.

The Department's response. Agreed. Health Canada continues to collaborate with First Nations and Inuit stakeholders and provincial and territorial partners on a number of initiatives aimed at developing and collecting data on relevant indicators. Health Canada plans to report on new data and indicators in the 2010 *Healthy Canadians* report, based on an update from the Federal/Provincial/Territorial Task Group on Aboriginal Health Data and Indicators (December 2008); the initial release of the 2006 Off-Reserve Aboriginal Peoples Survey on October 29, 2008; and, anticipated results in fall 2009 from the second cycle of the First Nations Regional Longitudinal Health Survey. Given the current timelines for the 2008 *Healthy Canadians* report, Health Canada will report on a limited number of indicators in this report.

Healthy Canadians receives little media attention

8.66 A communications strategy is an important tool for increasing the exposure of a publication. It can include analysis of how information will be disseminated to stakeholders, such as the media and other target audiences, and can involve working with stakeholders before the publication's release date to promote maximum exposure. If *Healthy Canadians* is to inform Canadians, Canadians need to be aware it exists. We expected Health Canada to have developed a communications strategy for promoting *Healthy Canadians*.

8.67 Although Health Canada developed communications strategies for the 2004 and 2006 editions of *Healthy Canadians*, we found very few references to either report in the media. In contrast, other reports, including other health indicators reports, that are frequently cited by the national media are produced by organizations that work extensively with the media in advance of report release dates to help ensure that their reports receive coverage.

8.68 Recommendation. In planning for future editions of *Healthy Canadians*, Health Canada should prepare a communications strategy designed to ensure that Canadians are aware of the reports.

The Department's response. Agreed. Health Canada developed communications strategies for previous *Healthy Canadians* reports, and will do so for the 2008 *Healthy Canadians* report. As part of its overall communications strategy, it will examine various ways to make Canadians aware of the report and its contents, including posting it on the Health Canada website and sending announcements of its release to health organizations and health professionals.

Health Canada's position on the Health Council of Canada's recommendations is unclear

8.69 Since 2005, the Health Council of Canada has released annual reports that provide a national system-wide perspective on progress made by the federal, provincial, and territorial governments in implementing the health care agreements, including the accountability and transparency provisions. The Health Council of Canada has made a number of recommendations with respect to comparable health indicator reporting, including that health ministers revisit their approach to producing health indicators reports, noting that, to date, comparable health indicators reports have not been a useful reporting mechanism for the general public. The Health Council has stated that, if governments are clear about their purpose, the comparable health indicators reports can become a useful public tool for assessing health care system improvement. It recommended linking reporting strategies to health care goals and including socio-economic factors in the health indicator framework.

8.70 While the Health Council's recommendations are directed to all jurisdictions and are not binding, in that a formal response to the recommendations is not required, we expected Health Canada to have analyzed the Health Council's recommendations to determine what action, if any, it should take. We found that Health Canada did analyze successive Health Council reports. However, we did not find evidence of what actions the Department decided to take in response to the recommendations.

Health Canada needs to devise a strategy to improve *Healthy Canadians*

8.71 We have made a number of observations that question the value of *Healthy Canadians*. As noted earlier, successive editions of *Healthy Canadians* are not receiving attention from the media and public. They remain largely unchanged since the first edition in 2002. Without interpretation, their ability to inform Canadians is limited. Health Canada needs to clarify the role of *Healthy Canadians* relative to other health indicators reports produced by CIHI, Statistics Canada, and the Chief Public Health Officer. It also needs to determine what it is trying to achieve above and beyond simply complying with the First Ministers' agreements, and how *Healthy Canadians* links to Health Canada's broader goals.

8.72 Given that three editions of *Healthy Canadians* have been released and we have found that the reports have not improved over time, it is an opportune time for Health Canada to conduct a thorough

review of its role and its approach to health indicator reporting. Options could include working with leading organizations with expertise in health reporting to better identify Canadians' needs and to improve analysis and reporting strategies.

8.73 Recommendation. Based on a thorough review of its role and approach to health indicator reporting, Health Canada should set out an approach to improve the *Healthy Canadians* reports, meet the health indicator reporting requirements in the health agreements, and ensure their relevance and usefulness to Canadians. The Department may also want to consider how best to capitalize on the expertise of other national organizations to improve future editions of *Healthy Canadians*.

The Department's response. Agreed. Health Canada will evaluate its approach to health indicator reporting under the First Ministers' Accords following the release of *Healthy Canadians* 2008. In its evaluation, Health Canada will consult with national organizations on how their expertise can contribute to improving the *Healthy Canadians* 2010 report and beyond.

Conclusion

8.74 *Healthy Canadians* is Health Canada's response to First Ministers' commitments in the 2000, 2003, and 2004 health agreements to report on comparable health indicators. We reviewed the 2002, 2004, and 2006 editions of *Healthy Canadians* to determine the extent to which they met the commitments. We found that although Health Canada met the specific commitments to report on health indicators, the Department did not do so in a way that fulfilled the broader intent of the agreements—to provide information to Canadians on the progress of health care renewal.

8.75 The reports present data on a number of health indicators without providing sufficient interpretation. Health indicators are presented in isolation, without clear explanation of their individual significance or how, together, they reflect progress on health care renewal. They do not tell a performance story.

8.76 We also reviewed each edition of *Healthy Canadians* to see if it had improved over time. We found that the presentation of the information in all three editions was essentially the same, with some modest improvements. Each edition continued to provide data on health indicators without adequate explanation and discussion of their implications—despite the fact that Health Canada had received

feedback through consultations with Canadians indicating that their information needs were not being met through the reports.

8.71 *Healthy Canadians* has the potential to be a useful tool in informing Canadians about their health and about health care system renewal. However, Health Canada must provide readers with interpretation of the comparable health indicators and link them to progress in health care renewal. Given that Health Canada has produced three editions of *Healthy Canadians* and will be reporting its evaluation of the 2008 *Healthy Canadians* in August 2009, it is an opportune time for Health Canada to conduct a thorough review of its role and its approach to health indicator reporting.

About the Audit

Objective

The objective of our audit was to determine the extent to which Health Canada met health indicator reporting commitments, including those in the First Ministers' health agreements, and to determine whether its reporting is improving.

Scope and approach

In our audit, we examined how Health Canada reported on health indicator information. We did not examine issues of data quality, or the role of provinces and territories in providing information on the health of their populations and the delivery of health care services. Also excluded from our audit were international reporting requirements and health indicators reported on the Internet.

Criteria

Listed below are the criteria that were used to conduct this audit and their sources.

Criteria	Sources
<p>We expected Health Canada's efforts to produce health indicators reports to have involved identifying its health indicator reporting commitments under the First Ministers' health agreements, as well as organizing its activities to meet these commitments. This includes establishing the relationships required to enable Health Canada to meet its commitments.</p>	<ul style="list-style-type: none"> September 2000 First Ministers' Meeting Communiqué on Health, Clear Accountability—Reporting to Canadians 2003 First Ministers' Accord on Health Care Renewal, Reporting to Canadians on Change, and Annex A to Accord First Ministers' Meeting on the Future of Health Care 2004, A 10-year plan to strengthen health care, Accountability and Reporting to Citizens Treasury Board of Canada Secretariat, Management Accountability Framework, Areas of Management (2007), Governance and Strategic Directions, Section 4.3
<p>To meet its health indicator reporting commitments, we expected Health Canada to have identified the target audience for the <i>Healthy Canadians</i> reports, determined the needs of this audience, and monitored the extent to which these needs were being met.</p>	<ul style="list-style-type: none"> September 2000 First Ministers' Meeting Communiqué on Health, Clear Accountability—Reporting to Canadians 2003 First Ministers' Accord on Health Care Renewal, Reporting to Canadians on Change, and Annex A to Accord First Ministers' Meeting on the Future of Health Care 2004, A 10-year plan to strengthen health care, Accountability and Reporting to Citizens CCAF-FCVI, What can we learn from effective public performance reporting, Good Practices for Central Agencies, Legislators, Auditors, and Report Producers (2007), Good Practice: Consult Users

Criteria	Sources
<p>To meet its health indicator reporting commitments, we expected Health Canada to have improved its reporting of health indicators over time by identifying gaps between the needs of the identified target audience and its current reporting, and to have worked to fill such gaps.</p>	<ul style="list-style-type: none"> • September 2000 First Ministers' Meeting Communiqué on Health, Clear Accountability—Reporting to Canadians • 2003 First Ministers' Accord on Health Care Renewal, Reporting to Canadians on Change, and Annex A to Accord • First Ministers' Meeting on the Future of Health Care 2004, A 10-year plan to strengthen health care, Accountability and Reporting to Citizens • Treasury Board of Canada Secretariat, Management in the Government of Canada: A Commitment to Continuous Improvement (2005), Section 2

Audit work completed

Audit work for this chapter was substantially completed on 15 June 2008.

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Appendix List of recommendations

The following is a list of recommendations found in Chapter 8. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Improvement over time	
<p>8.42 For future editions of <i>Healthy Canadians</i>, Health Canada should include interpretive information to help Canadians understand what the health indicator data mean as well as how health care renewal is progressing. (8.35–8.41)</p>	<p>Agreed. In earlier versions of <i>Healthy Canadians</i>, Health Canada focused on presenting data on comparable indicators clearly and unambiguously, avoiding interpretations that were not supported by the data alone and which might have been challenged by alternative perspectives. For the 2008 <i>Healthy Canadians</i> report, Health Canada will continue to emphasize data validity and reliability but is also exploring ways of interpreting the data that would make it more meaningful to Canadians. A Committee has been established with a mandate to provide advice and guidance on the development of the 2008 <i>Healthy Canadians</i> report and, in particular, on ways of presenting the data with more interpretive analysis, while at the same time retaining any necessary cautionary and explanatory notes about data validity and reliability. The Committee, which met for the first time on January 31, 2008, includes members from Health Canada and the Public Health Agency of Canada.</p>
<p>8.48 In planning for future editions of <i>Healthy Canadians</i>, Health Canada should take into account the results of its consultations and its 2009 evaluation to determine the needs of Canadians and how <i>Healthy Canadians</i> can best meet them. (8.43–8.47)</p>	<p>Agreed. Based on previous consultations, Health Canada is looking at ways to improve interpretation of the data in the 2008 <i>Healthy Canadians</i> report, and is considering the relevance of the indicators reported. Health Canada is also planning an evaluation of the 2008 <i>Healthy Canadians</i>, including input from external stakeholders such as health interest groups, which will be completed by August 2009, in time to incorporate findings into future federal reports.</p>
<p>8.54 In planning for future editions of <i>Healthy Canadians</i>, Health Canada should review the health indicators reported on and take concrete steps to improve their presentation. (8.49–8.53)</p>	<p>Agreed. Health Canada has reviewed the current list of comparable health indicators, which was developed via a federal–provincial–territorial consultation that ended in June 2005. This review, completed in September 2008, assessed the extent to which these indicators reflect current concerns of Canadians and ongoing commitments of the Health Accords and has been used in the development of <i>Healthy Canadians</i> 2008.</p>

Recommendation	Response
<p>8.58 Health Canada should consult with the departments responsible for federal populations regarding the merit, applicability, and feasibility of including information on these populations in future editions of <i>Healthy Canadians</i>. (8.55–8.57)</p>	<p>Agreed. In 2008, Health Canada plans to report any available new data in relation to health services delivered by other federal departments to specific population groups (National Defence, Veterans Affairs Canada, Citizenship and Immigration Canada, Correctional Service Canada, Royal Canadian Mounted Police). For <i>Healthy Canadians</i> reports in 2010 and beyond, Health Canada plans to consult with the other departments on the merit, applicability, and feasibility of reporting on these populations.</p>
<p>8.65 Health Canada should continue to develop First Nations and Inuit health indicators in collaboration with other governments and Aboriginal peoples, and report these indicators in future editions of <i>Healthy Canadians</i>, to the extent that it is practicable. (8.59–8.64)</p>	<p>Agreed. Health Canada continues to collaborate with First Nations and Inuit stakeholders and provincial and territorial partners on a number of initiatives aimed at developing and collecting data on relevant indicators. Health Canada plans to report on new data and indicators in the 2010 <i>Healthy Canadians</i> report, based on an update from the Federal/Provincial/Territorial Task Group on Aboriginal Health Data and Indicators (December 2008); the initial release of the 2006 Off-Reserve Aboriginal Peoples Survey on October 29, 2008; and, anticipated results in fall 2009 from the second cycle of the First Nations Regional Longitudinal Health Survey. Given the current timelines for the 2008 <i>Healthy Canadians</i> report, Health Canada will report on a limited number of indicators in this report.</p>
<p>8.68 In planning for future editions of <i>Healthy Canadians</i>, Health Canada should prepare a communications strategy designed to ensure that Canadians are aware of the reports. (8.66–8.67)</p>	<p>Agreed. Health Canada developed communications strategies for previous <i>Healthy Canadians</i> reports, and will do so for the 2008 <i>Healthy Canadians</i> report. As part of its overall communications strategy, it will examine various ways to make Canadians aware of the report and its contents, including posting it on the Health Canada website and sending announcements of its release to health organizations and health professionals.</p>

Recommendation

8.73 Based on a thorough review of its role and approach to health indicator reporting, Health Canada should set out an approach to improve the *Healthy Canadians* reports, meet the health indicator reporting requirements in the health agreements, and ensure their relevance and usefulness to Canadians. The Department may also want to consider how best to capitalize on the expertise of other national organizations to improve future editions of *Healthy Canadians*. (8.69–8.72)

Response

Agreed. Health Canada will evaluate its approach to health indicator reporting under the First Ministers' Accords following the release of *Healthy Canadians 2008*. In its evaluation, Health Canada will consult with national organizations on how their expertise can contribute to improving the *Healthy Canadians 2010* report and beyond.

Report of the Auditor General of Canada to the House of Commons—December 2008

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